

A CONCEPTUAL MODEL OF CRISIS COMMUNICATION WITH
THE MEDIA: A CASE STUDY OF THE FINANCIAL SECTOR

by

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ABSTRACT

Crisis communication has emerged as a specialised study field for public relations scholars and practitioners in the past 17 years. It is suggested that several gaps in current crisis communication literature exist. A notable focus has been given to the planning, prevention and recovery stages with lesser attention placed on the crisis response stage. A comprehensive conceptual framework to guide communication decision-makers during this critical period has not yet been developed. In addition, crisis communication studies appear to be predominantly Western based.

This qualitative study attempts to address these gaps. The focus is on the crisis response stage, with particular emphasis on communication with the journalists who work for media organisations. It is acknowledged that the success of a crisis management effort is profoundly affected by what an organisation says and does during a crisis – termed the crisis response (Benoit 1997; Coombs 2004). Literature and data drawn from South African case studies is translated into a conceptual framework which acknowledges the importance of context, flexibility and constant feedback/monitoring of the environment on crisis communications.

The findings of this qualitative study are in line with the current post-modern organisational values that are increasingly emphasised in national and international literature. The study especially makes a unique contribution by

applying these values to a conceptual model of communication between the organisation and the media during times of crisis.

The model is designed to assist an organisation to protect its image during a crisis in the following ways:

- Convince the media that there is no crisis (in the case of unfounded rumours);
- Encourage them to view the crisis in a less negative light by acknowledging the organisation's interpretation of events.
- Influence the media to see the organisation more positively through the effective management of the crisis.

Key terms: communication, crisis, crisis communication, media, media communication, crisis management, organisational legitimacy.

I declare that

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is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

Signature

Ms J K MacLiam

Date: 15 November 2006

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CHAPTER ONE

TOWARDS A NEW MODEL IN CRISIS COMMUNICATION

Research is absolutely critical to the emergence of the field of communication as a science (Du Plooy 2001:29).

1.1 Introduction

Du Plooy's (2001:29) succinct statement underscores the necessity of research to accord the communication field scientific status. With a respectful adherence to qualitative research methodology and principles, this study is expected to make a contribution in this regard.

A conceptual model of communication between an organisation and the media during crisis periods is derived from a thorough review of recent crisis communication literature and information drawn from case studies. Its intention is to provide crisis managers with a comprehensive decision-making tool for the **content** of crisis communication, a lesser-developed area of research (Coombs 2004).

Chapter one presents an overview of the study and explains the purpose, background, relevance and applicability of the topic to the field of communication. An introductory literature review and outline of the methodology and type of study lays the foundation for the detailed chapters which follow.

1.2 Purpose of the study

The purpose of this study is to translate existing literature on crisis communication principles and theories, as well as the learning obtained from case studies of crises in the South African banking environment, into a currently relevant conceptual model for organisational strategies of crisis communication with the media. This will contribute to the body of public relations knowledge in South Africa and assist crisis communicators with the critical task of dealing with crises while preserving or even enhancing the reputations of their organisations during crises.

Recent texts describe three stages of crisis management: prevention, response and recovery (Coombs 2004; Dulek, Hale & Hale 2005). While a large portion of the current literature on crisis communication thus far appears to have focussed on the prevention and recovery stages (Coombs 2004), this study will focus on the **crisis response stage**. This is the point where crisis communicators make important decisions that could significantly influence public opinion about the crisis and an organisation's handling of the crisis.

In any given crisis situation, it should be assumed that the matter could well become public knowledge (Mersham & Skinner 2004). *The reality today is that bad news travels at net speed. Potentially 60 million people will read about your organisation in the first hours after a crisis before you can even begin to impact your news coverage* (Clawson-Freeo 2003:1). Communication to the journalists who work for media organisations during the crisis response stage (this process will be referred to throughout the study as **crisis communication to/with the**

media) can therefore be described as a critical aspect of any crisis management plan and is the subject of this study.

The industry chosen for this study is the financial sector. Due to the fact that the South African banking sector owns more than 80% of the total banking assets of the top 100 banks in Sub-Saharan Africa, its importance to the economies of the region cannot be underestimated. In the words of Derek Cooper from the Nedlac Financial Sector Summit: *The financial sector is like the oil in an engine. Without oil, the economic engine will function defectively, if at all* (Wu 2003:14).

The financial sector is currently facing pressure from government, shareholders and customers alike. These pressures include (Vermeulen 2003):

- Compliance with various new regulations such as the Financial Services Charter (FSC), the Financial and Advisor Intermediary Act (FAIS), the Financial Intelligence Centre Act (FICA) and the National Credit Act;
- Government calls for black empowerment shareholding and financing;
- Money laundering;
- Increasing fraud and robberies;
- Growing consumer dissatisfaction with high prices and poor service which led to the 2006 Competition Commission Enquiry;
- Huge financial risks, such as providing finance to the traditionally underserved section of the population;
- Bad debt;
- Streamlining/cost-cutting exercises, which includes the closure of branches and retrenchments;

- Diversification of income streams from non-interest income to offset high cost-to-income ratios and increase shareholder return on investment;
- Financial products traditionally offered only by banks being eroded by retail offerings;
- The threat of take-overs by larger, overseas banks.

Against this backdrop of possible stories that could attract the interest of journalists and thus result in potential negative publicity for the banks involved if they are not managed well, the purpose of this study is summarised as follows: to articulate a theory-based conceptual model for matching crisis response strategies to the crisis situation to best preserve organisational reputation. By synthesising the major approaches to crisis communication together with lessons learnt from local case studies, an integrated, methodological model or tool should result.

1.3 Brief background to the study

According to Clawson-Freeo (2000:1) a **crisis** *is any situation that threatens the integrity or reputation of a company, usually brought on by adverse media attention. It can also be a situation, where, in the eyes of the general public, the media, shareholders, stockbrokers and analysts, the company did not react to any of the already mentioned situations in an appropriate manner.*

In the past few years alone, many South African examples abound. In 2003, First Rand financial services group faced a corporate governance crisis following Sunday Times newspaper allegations that its non-executive director, Mac

Maharaj, accepted bribes while serving as Transport Minister in the South African government (refer to Annexure C) . In roughly the same period Pick 'n Pay supermarket chain confronted extortion through the poisoning of its non-perishable foodstuffs. Absa Bank (refer to Annexure A) was hit by internet banking fraud which rocked consumer confidence and Standard Bank (refer to Annexure B) was faced with a hostile take-over threat from rival Nedcor which could have had devastating effects on investor confidence (Vermeulen 2003).

A closer look at just two of the examples mentioned, namely FirstRand and Pick 'n Pay, shows that the manner in which a company communicates its perspective of any given story, potential scandal, or libellous accusation can either do damage, reinstate or alternatively, even enhance its reputation. For example, FirstRand was accused publicly of not expediting the said Maharaj investigation that had fuelled ongoing media speculation, connecting the bank by osmosis to suggestions of malfeasance, regardless of the reality. Vermeulen (2003:12) argues: *Whereas FirstRand did not look at other examples on conduct damage control, Pick 'n Pay was more prepared.* She explains how Pick 'n Pay imported a respected communications firm from Britain whose advice was to be brutally honest and transparent and keep the media and public informed at every juncture. Vermeulen (2003) argues that this strategy appeared to earn Pick 'n Pay public sympathy and support. *However FirstRand carried the stigma of the Maharaj scandal for quite some time afterwards* (Vermeulen 2003:12). One of the case studies examined for this research is the aforementioned FirstRand crisis. The findings from the FirstRand case studies contradict Vermeulen's (2003) analysis of the situation. Although FirstRand was initially unprepared for media queries, it quickly appointed an experienced crisis communication advisor

to guide its executives. FirstRand soon earned the respect of most of the journalists covering the story, by sharing as much information as possible, without prejudicing the case against Maharaj. Although the legal restrictions on information appeared to curtail the journalists, FirstRand employed independent third party investigators and provided all evidence to respected third parties, such as the Reserve Bank and Financial Services Board. This strategy appeared to earn FirstRand credibility in the eyes of the journalists (refer to chapter five and Annexure C for more details). In September 2003, FirstRand showed solid growth in its retail, corporate and new business growth despite the year of controversy (Business Report 2003:1).

1.3.1 Views of South African crisis communication experts

According to Summers (2003:11), former CEO of Pick 'n Pay, *there are no suitable manuals to deal with big crises*. Duncan (2003), crisis communicator at Adrian Steed Communications explains: *You can't find the answers in a textbook. It's through hands-on experience that you learn how to deal with the media during a crisis. The biggest stumbling block is getting Mahogany Row (senior executives) to identify potential risks early. Too often, it appears, the responsible executives deal with problems with an almost cavalier lack of regard for the consequences of their actions. When the trouble starts – they expect us, the communicators, to pull a rabbit out of a hat*. One of the financial media communication specialists interviewed for this research, also highlighted these points: *And no manual is going to help you. At the communication agency I worked for, we made money writing crisis manuals. Chuck it out the window! When the crisis starts rely on your instincts and experience*.

From Duncan's (2003) argument, one can assume that it would be necessary for a crisis communication expert to be represented on *Mahogany Row* so that the possible ramifications in the media of strategic and operational decisions made by senior executives could be explained in advance of their implementation. The crisis communicator would therefore need to be part of the decision-making process at senior executive level. The abovementioned italicised quotes from South African crisis communicators also suggest that experience, rather than theory, is the key to learning how to manage a crisis situation in the media. A crisis communication manual or text book cannot supply the level of guidance to managing every crisis situation that only experience and practice can. It is for this reason that case studies comprising interviews with experienced crisis communicators have been chosen as data collection tools for this research. Researchers Du Plooy (2001) and Wimmer and Dominick (1991) advocate the use of case studies and interviews to provide researchers with a wide range of evidence and information on a topic. Case studies will help the researcher to understand why certain communication decisions were taken by the crisis communicators during each crisis examined. These experiences of positive and possible negative pitfalls of real life experiences will contribute to an informed model.

1.3.2 Relevance of the topic

According to authors such as Fearn-Banks (2002) and Mersham and Skinner (2002), it is inevitable that organisations will face crises. Helping to manage both crisis and opportunity is one of the critical challenges for public relations professionals. Public relations has been frequently criticised for its lack of theory

and for basing practice more on intuition than on scientific principles (Holtzhauzen 1995; Olson, Signitzer & Windahl 1992). According to communication scholar, David Berlo (1960), a good theory has practical application. A new dynamic model of crisis communication management may be required because traditional linear models and theories of communication, persuasion and management do not fully explain the multi-channelled and sometimes chaotic communication environment which characterises crises in most organisations (Bloom, Crystal & Verwey 2002; Gayeski & Majika 1996: 22). Very often when a crisis breaks, it is unexpected and the organisation only becomes aware of it when a journalist enquires (Seitel 2001). Many factors happen at once and crisis events escalate. Information can be ambiguous or conflicting and chaos reigns (Seitel 2001). Crises do not generally follow an orderly sequence, as the traditional theories would have us believe, and cannot necessarily be controlled using traditional cause-effect persuasive techniques.

Much of the literature provides rudimentary and what could be criticised as somewhat idealistic checklists for the crisis communication planner. For example, a typical crisis manual will state that it is necessary to have a list of journalist and key management contact numbers and that the organisation should respond quickly to queries. These checklists do not give details on the actual content of communications and do not cover the contingency of the communication planner having to change tactics midstream, perhaps in response to the ineffectiveness of messages. This study will bring a different perspective to the phenomenon through the formation of a flexible, content-driven model that can be adapted to suit different crises situations.

The majority of research in the field has been carried out on crises at large international organisations like Nike's footwear, Johnson & Johnson's pain medication Tylenol, Nestle's infant formula and Perrier's sparkling water. Limited information is available in the South African context. This study, by concentrating on the South African business context, and on a particular industry vertical, the financial services sector, is expected to produce some locally relevant information that can be applied by public relations professionals in this country.

An important characteristic of most crises is that the news media are highly interested (Fearn-Banks 2002; Gonzalez-Herrero 1994; Mersham & Skinner 2002). Media attention and scrutiny is a fact of business life and journalists must be engaged with, whether the organisation likes it or not (Fearn-Banks 2002; Gonzalez-Herrero 1994; Mersham & Skinner 2002). Communication to the media is thus a critical aspect of any crisis communications plan. Silence in the midst of a crisis implies guilt, whether justified or not, and reporters face deadlines hour by hour (Gonzalez-Herrero 1994; Levine 2006). Control of the situation requires that the organisation in crisis controls the message (Fearn-Banks 2002). Current literature on crisis communications management includes all the elements of a crisis communication plan (communication to staff, shareholders and the like). This study will be unique as it focuses on one aspect of crisis communications, that is, communication to the media.

According to Coombs (1999:125), a significant part of crisis management literature is devoted to detecting and preventing a crisis pro-actively because the best crisis is the one that is avoided. However, Coombs (1999) believes that an

organisation cannot avoid, prevent or prepare in advance for all possible crises. The success of a crisis management effort is heavily dependent on what the organisation says and does after a crisis begins – termed: the crisis response (Benoit 1997). Hale et al (2005:131) suggest that communication models can prove most beneficial under such circumstances. According to Bloom (2001:85): *Inventing a response to a crisis as it breaks cannot be done to the best of a public relation consultant's advantage under the pressure of events.* Given this situation, a set of guidelines or model could help crisis communicators to formulate responses to the media during a crisis.

1.4 Introductory literature review

In this section the background to existing theories and models of crisis management is presented. **Crisis management** refers to how organisations deal with crisis situations. It comprises **crisis communication** to various stakeholders such as staff, shareholders, the public and the media. This study focuses on one aspect of a crisis communication plan – that is crisis communication to/with the media. Crisis communication described by this study refers to a process of symmetrical communications during a crisis to the media that is carefully crafted to protect or even potentially enhance an organisation's image.

1.4.1 Background to theories of crises management: traditional linear versus progressive systems theory approaches

For the past century, both the natural and social sciences have been dominated by metaphors of well-regulated and predictable machines (Gayeski & Majika 1996:22). Much classic crisis communication and crisis management research has been based on a mechanistic view of control. For every action, there was a specific reaction and communicators believed that it was possible to predict how audiences would react to a carefully crafted message (Gayeski & Majika 1996:22). This traditional linear cause-effect view is being questioned by progressive systems approaches which take into account the dynamic interdependence of factors such as context and the mind in meaning-making (Bruner 1990; Gergen 1999). The calculation of probabilities, rather than absolute prediction has become the norm (Gayeski & Majika 1996). The effect of these paradigm shifts on the field of crisis management can be briefly described as follows:

- **Traditional linear approaches:** According to Keene (2000:15), in the traditional linear paradigm of seeing the world and organisations in a mechanistic way, crises were viewed negatively as signs of trouble. Organisations following this approach seek to control their environment and experience frustration when it behaves in a way that is incongruent and in conflict with the operation of the organisation.
- **Progressive systems approaches:** In contrast, progressive organisations follow the premise that environments are dynamic and that

change and uncertainty will come to pass irrespective of organisational efforts to control and direct them (Keene 2000:16). This approach views crises as opportunities for beneficial restructuring (Bloom et al 2002).

In this study, the following theories and models of crisis management and crisis communication are discussed which can be classified on a continuum between the traditional linear approaches to the more progressive systems approaches:

Models leaning towards the traditional, linear continuum of crisis management and crisis communication:

- Meyers and Halusha's model (1986)
- Stage models of crisis: Fink (1986), Mitroff (1988), Horsley & Barker (2002)
- The linear crisis response model (Hale, Dulek & Hale 2005)

Models leaning towards the progressive, systems continuum of crisis management and crisis communication:

- The spiral crisis response model (Hale et al 2005)
- Chaos theory
- Situational crisis communication theory – SCCT/SCC theory

The models and theories listed above are helpful in building a body of knowledge to further the understanding of crisis management. While they all acknowledge the importance of communication decisions made during a crisis, none of them actually examine these decisions and responses. The SCC theory addresses these responses and is thus the approach most relevant to the model designed

from this research. Its limitations will be addressed in the proposed model discussed in chapter six.

1.5 Type of study

The study is both exploratory and descriptive as it aims to explore theoretically and with case studies, organisational communication to the media during a crisis. Through this process it endeavours to gain a new understanding of the topic, which can be formulated into a descriptive, conceptual model, with particular relevance to the South African financial services environment. According to Du Plooy (2001) and Neuman (2000:21), some of the goals of exploratory research, which are particularly relevant to this study, are to promote knowledge of a process, to determine the accuracy of a principle or a theory and to build a theory.

Because this study will make use of an interpretive and case study approach it falls under the qualitative paradigm. The purpose of qualitative research can be summarised as the understanding or the illumination of meanings (Durrheim & Terre Blanche 2002; Hoshmand 1999). For this reason qualitative research is described as an interpretive method (Du Plooy 2001). Case studies provide researchers with a wide range of evidence and are useful as a retrospective learning tool of real-life situations. In this research, case studies will assist the researcher to understand the decisions taken by communicators during a crisis and the implications of these decisions.

In comparison with the quantitative or positivist tradition of experimentation, theory testing and verification (Gergen 1999) - qualitative researchers place more emphasis on description, understanding and discovery (Du Plooy 2001; Gordon 1999). The attitudes associated with this mode of inquiry have been described as open, reflexive and sometimes a-theoretical (Flick 2002; Hoshmand 1989). Neuman's (2000:145) argument further confirms the qualitative nature of this research: *Instead of converting ideas of the social world into general variables to form hypotheses, qualitative researchers borrow ideas from the subjects that they have included in their study to develop new ideas as they look at or examine a specific case in its context or natural setting.*

This study will not attempt to measure or quantify the phenomenon under study, but will rather draw themes from the case studies and elements from the literature study, to come to conclusions on which a new model of understanding crisis communications with the media will be based. It is appropriate for the study to draw from a qualitative theoretical framework because the intent is to avoid speculative theory and to learn from real life case studies of how South Africa's largest banks (by assets and customer numbers) dealt with their various media crises. Scholars such as Babbie and Baxter (2004), Du Plooy (2001), Hammersley (1992) and Silverman (1993), have demonstrated that qualitative research is a justifiable and legitimate means of gathering information for additional insights and theory development. The application of this knowledge may make the difference between salvaging or destroying an organisation's reputation, in spite of the fact that bad news attracts media audiences.

In the next section the research method used for this study will be described as well as the manner in which data was collected and interpreted.

1.6 Methodology

The study will comprise two elements: a literature survey and a case study component. According to scholars such as Babbie and Baxter (2004), Du Plooy (2001) and Rapmund (1996) in positivist, traditional research, the literature survey is undertaken, primarily to generate hypotheses. However, such a goal is not congruent with the qualitative approach taken by the researcher. In this study, the literature survey will reflect the research and thinking currently available in the field of crisis communication. The literature survey will be compared with the emerging themes of this case study approach. Its purpose will not be to prove or validate these themes - instead the literature survey will offer different perspectives on the topic (Du Plooy 2001; Rapmund 1996; MacLiam 2003). The purpose of the case study approach in this dissertation will be to examine the responses/strategies employed by crisis communicators to the media in the South African context. These will be supplemented by published newspaper articles on the case studies examined.

1.6.1 Collection and interpretation of data

The crisis events that will be studied have taken place in the period 1999 – 2003. They were chosen on the basis of the richness of the data they could provide, and on the basis of the availability of interviews with the key crisis communicators involved in making decisions about communication strategies

during the crisis. The sample is thus described as **purposive** and **convenience** (Du Plooy 2001:14). Supplementing news coverage of the events will be drawn from three major South African publications: The Business Times (supplement of The Sunday Times), Business Report (supplement of Independent Newspapers) and Business Day. The Business Report supplement appears in the following national newspapers: The Mercury, The Star, The Saturday Cape Argus, The Pretoria News, Cape Times, Sunday Tribute, The Sunday Argus, The Sunday Independent, The Saturday Star and The Weekend Argus. These publications were targeted because of their financial focus, the recommendations of the three interviewees and the publications' wide readership (please refer to chapter five for circulation figures). They are the predominant, pre-eminent daily and weekly financial publications in South Africa (Levine 2006). Each of them is circulated nationally, as well as online. At times the sensationalist financial stories of the day that may attract non-business readers are reflected on the pages of the main bodies of the Sunday Times and Independent newspapers drawing readers to the full stories inside the business supplements. Although extensive publicity, some of it potentially scathing, was received in many other consumer-oriented publications, online and in the broadcast media, in terms of the financial sector, the selection of publications chosen is considered a balanced representation of overall coverage.

Researchers such as Du Plooy (2001:121) and Wimmer and Dominick (1991:156) cite the following benefits of applying a case study methodology:

- Case studies provide researchers with a wide range of evidence about the research topic. Documents, artefacts, interviews and direct observations

can be incorporated into the study. By using multiple sources of data, the scientific validity of the research is enhanced.

- The case study method can be used as a retrospective learning tool of real-life contexts.

These advantages outweigh the possible disadvantages of the case study method, such as its time-consuming nature, lack of scientific rigour and ability to make generalisations. Partially structured interviews with specialist crisis communicators will be the main method used to obtain material. Information about participants will be gleaned from their résumés. Questions will be open-ended and discovery-oriented and participants will be encouraged to tell their stories or case studies with as much detail as they are willing and able to provide.

An interpretive method termed hermeneutics - the art of interpretation - will be used to analyse the data. The goal of hermeneutics is to discover meaning and achieve understanding, not to extract theoretical terms or concepts at a higher level of abstraction (Van Manen 2002). It aims to interpret experiences through a text. The researcher's task is to uncover the shared common practices of the experience (Van Manen 2002). Hermeneutics assumes that the meaning-giving process is influenced by social structures, as well as shared practices and language (Angelopulo & Barker 2006; Van Manen 2002). Such a qualitative research approach will immerse the researcher in the data and encourage an open-ness to new findings (Babbie & Baxter 2004).

The following order will be used in the execution of the research process:

- Interviews with crisis communicators involved in making decisions regarding communication strategies surrounding the crisis will be tape-recorded and examined using the hermeneutic approach mentioned.
- Media reports on each crisis will be obtained from the web-sites of the respective publications.
- This material will be examined using traditional and non-traditional frameworks drawn from the literature.
- Common patterns and themes gleaned from each of the crises will be identified and discussed by the researcher. Some of the themes could include: lessons learned through experience, the strategies behind different case studies and their results.
- A new conceptual model for organisational strategies of crisis communication with the media will be developed and proposed, based on these findings, as well as on the literature review conducted.
- Shortcomings of the research and suggestions for future inquiry will be discussed.

1.6.2 Feasibility of study

The data to be researched is relatively easily available through the internet and newspaper archives and participants are accessible to the researcher who currently works in the field. There are no expected cost implications. The only equipment needed for the study is a tape recorder for the in-depth interviews.

Informed consent will be obtained from participants and their identities protected if requested. Should any of the participants wish to retract statements made for fear of breaching company confidentiality at any stage of this interview, they will be at liberty to do so. It is understood that many of the strategies employed or decisions made under crisis situations may not necessarily be of an ethical nature and thus participants may be reluctant to share these with the researcher. The researcher will however encourage disclosure for the sake of academic research, with anonymity being assured. The guarantee of confidentiality may give participants the confidence to express their thoughts freely.

Qualitative research is time and labour intensive. Therefore it is not feasible to use a large sample and it is normal practice that only a few cases are studied intensively (Darlington & Scott 2002; Du Plooy 2001). In this research three case studies are examined. This type of research therefore often gains validity at the expense of its ability to make generalisations (Darlington & Scott 2002).

In qualitative research, rather than upholding traditional standards of reliability and validity, where increased quantification and standardisation is the norm, criteria such as authenticity, or domain-referenced validity is more appropriate,

as is the usefulness of the interpretations gleaned from the research (Durrheim & Terre Blanch 2002). According to Stiles (1993:594), in qualitative research, *[r]eliability refers to the trustworthiness of observations or data, while validity refers to the trustworthiness of interpretations or conclusions.*

1.7 Anticipated findings

Based on the exploratory nature of this study, it is suggested that a greater understanding of the phenomenon under investigation will be achieved. The findings will be particularly relevant to the South African context and will contain rich descriptions of strategies employed to deal with chaotic crisis environments. As an initial investigation of crisis communication to the media during the crisis response stage, this study is designed to discover and organise concepts for appropriate decision-making into a conceptual model.

1.8 Conclusion

In summary, the study will comprise the following chapters:

Chapter one provides an overview and introduction to the study.

Chapter two will examine existing research in order to contextualise, define and describe terms and principals relevant to crisis communication with the media including crisis, crisis communication, organisational legitimacy, crisis management, crisis response and spin-doctoring.

Chapter three will contain a discussion of theories and models relevant to the field of crisis management.

Chapter four will discuss the research approach and methodology of this study. The study is qualitative and the method of analysis will be hermeneutics.

Chapter five will discuss the findings of the research conducted.

Chapter six will describe a conceptual model for organisational strategies of crisis communication with the media, based on the case studies, literature and findings from the research. The study will be evaluated and recommendations for future research will be made.

CHAPTER TWO

CRISIS COMMUNICATION WITH THE MEDIA

2.1 Introduction

As stated in chapter one, the purpose of this study is to translate the existing literature on crisis communication principles and theories, as well as the learning obtained from case studies of crises in the South African banking environment, into a currently relevant conceptual model for organisational strategies of crisis communication with the media. In this chapter, existing literature is examined in order to contextualise, define and describe terms and principals relevant to crisis communication with the media. This will lay the foundation for the study

It is suggested that a notable part of the literature is focused on the structure or **fundamentals** of planning for a crisis such as the development of crisis communication manuals, media training and selecting a media spokesperson and that lesser attention is given to the actual **content** of crisis communications (Coombs 1994). These fundamentals are discussed in the sections that follow to provide a background of literature on the topic.

Media attention is identified in the literature as endemic to most crisis situations (Gonzalez-Herrero 1994; Fearn-Banks 2002) and many scholars agree that an organisation's response to journalists during a crisis (the **content** of communications) can have far-reaching effects on its reputation (Kempner 1995; Coombs 1994; Fearn-Banks 2002; Hale, Dulek & Hale 2005; Mersham &

Skinner 2002). The focus of this research - **communication to the media during a crisis** - is therefore given credence. The following sections of this chapter will discuss the varying definitions and descriptions in the literature of terms relevant to the topic.

2.2 A contextualisation of crisis communication to the media

In order to provide context for the focus of the study - crisis communication with the media - the following related concepts will be defined and described: crisis, common organisational crises, description of an organisation dealing with a crisis, crisis management and organisational legitimacy. These concepts will help to build a framework for the study.

2.2.1 Crisis defined

The term crisis can often be ambiguous. As Guth points out (2002:125): *One person's incident is often viewed as another person's crisis.* In a similar vein, Fearn-Banks (2002:2) asserts that many professionals claim they have daily crises and argues that a crisis is more serious than a problem. Fearn-Banks (2002:2) explains this as follows: *A crisis is a major occurrence with a potentially negative outcome affecting the organisation, company, or industry, as well as its publics, products, services or good name. It can interrupt normal business operations and can threaten the existence of the organisation. It can take the form of a strike, terrorism, fire, boycott, product tampering, product failure, an earthquake and so on.*

Also focusing on the potential consequences of crisis, Artigue and Matera (1999:216) postulate that a crisis can be any *non routine event that could be disruptive to business operation*. According to Modzelewski (1990:12), referring specifically to the financial context: *a crisis can be defined as a negative event which, amongst other factors, causes the financial organisation's stock price or market share to go down*.

Clawson-Freeo's (2000:1) definition builds on to the aforementioned definitions by incorporating media attention into the description of a crisis. Clawson-Freeo (2001) also suggests that the manner in which an organisation handles a crisis is important and that inappropriate reactions to the crisis by management could, in itself, cause another crisis (2001). Clawson-Freeo (2001:1) describes a crisis as *any situation that threatens the integrity or reputation of a company, usually brought on by adverse media attention. It can also be a situation, where, in the eyes of the general public, the media, shareholders, stockbrokers and analysts, the company did not react to any of the already mentioned situations in an appropriate manner*.

Crisis expert Fink (2005:129) also points out that all crises run the *risk of coming under scrutiny of the media, escalating, interfering with normal operations, jeopardising the positive public image of the organisation and affecting a company's bottom line*. Gonzalez-Herrero (1994) concurs that an important characteristic of most crises is that the news media are highly interested. *Media attention and scrutiny is a fact of business life and journalists must be dealt with whether the organisation likes it or not* (Gonzalez-Herrero 1994:10).

What is evident from most of the discussed definitions of crisis is the negative connotation given. In a slightly different light, Webster's dictionary (1995:225) defines a crisis as a *turning point for better or worse, a decisive moment or crucial time*. This suggests a possibility that a crisis may have a positive outcome. Therefore a crisis may not necessarily be viewed as being negative (Darling 1994). According to Fink (2005:15): *It is merely characterised by a certain degree of risk and uncertainty*.

Developed from the aforementioned descriptions, the following definition applies to this study and takes into account the focus on media attention and the possible opportunity for a favourable outcome: A crisis is a turning point for an organisation, usually brought on by adverse media attention, which, if managed properly, can maintain or even enhance the reputation of a company.

2.2.2 Crises described

One way to describe a crisis is, according to Cantor (1989:166), based on its time-scale. Examples relevant to the financial industry have been included as illustrations.

- A sudden fire, accident or other noticeable event with immediate impact is termed an **exploding crisis** (Cantor 1989: 166). An example could be the acts of terrorism at the World Trade Centre in New York on September 11, 2001, which destroyed the headquarters of many financial institutions, killing more than 2000 people, including many leading financiers.

- An **immediate crisis** (Cantor 1989: 166) describes an event that may come without warning, such as the sudden resignation of the CEO of a bank. Very often no time is allowed for research as to the cause because the media want comment immediately.
- A **building crisis** (Cantor 1989: 166) can be termed an emerging crisis or an anticipated crisis which gives communicators time to research and plan a response. For example, a media office may anticipate that the increase in banking fees may cause public dissent, and can thus prepare well-researched responses. However, the disadvantage is that it cannot always be determined exactly when the crisis will strike – it might take many months, or just a few weeks for the crisis to hit.
- A **continuing crisis** (Cantor 1989: 166) is a chronic problem that usually develops over a longer period of time and is not easily resolved. The media may carry speculative stories and rumours may be persistent. For example, when local bank Nedbank made a hostile bid for Standard Bank in 1999 it was necessary for Standard Bank to develop a strategic longer-term crisis-response plan to mitigate the effects of the protracted media attention that was evident throughout the months preceding the rule of the Competition Commission in 2000.

All crises differ in terms of the length of time they last, the damage caused and the measures required to deal with them. Different crises require different management techniques and the crisis manager must identify the type of crisis

and its accompanying time constraint (Cantor 1989). It could be argued that Cantor's descriptions of crises are only useful retrospectively as it is not possible at the outset to know whether a crisis will be protracted or not.

Nevertheless, what is evident about current crises is that, given the proliferation of electronic media, they are so much more visible than ever before. According to Calloway and Keen (1996), in the world of fast-response, real-time communication, perceptions become reality very quickly. Calloway and Keen (1996:14) state: *The fluctuations in today's financial marketplace rely on fast-responses of less than 20 seconds. Foreign exchange markets are coordinated worldwide by information technology-based services like Reuters.*

Technology ensures that a damaging message about an organisation, even if only partly true, can be spread within minutes to millions of people, including the news media (Irvine & Millar 1998). Irvine and Millar (1998:8) warn: *You may not know about the problem until your switchboard is being flooded by calls from irate customers, contributors and reporters wanting to know what is going on.* It is therefore necessary for companies to galvanise their operational communication systems and decision-making processes for dealing with potential crises. The next section describes common crises in organisations that have typically made newspaper headlines.

2.2.3 Organisational crises

A large part of recent negative crisis publicity is caused by personnel in the financial services sectors: scandals, questionable policies, unethical actions and white-collar crimes such as bribery, fraud and insider trading (Bloom et al 2002). Irvine and Millar (1998) suggest that many smouldering crises are often the result of questionable management decisions. The Centre for Business and Ethics at Loyola Marymount University (2006:3) cites examples such as the culture at Enron and Worldcom. These two renowned companies had to declare bankruptcy because of immorality on behalf of executive management, which led to severe crises. The emphasis was on the numbers and immediate success rather than on long-term values of ethics and morality. *There was a gradual descent into poor judgment, denial, failure to challenge the system, greed, deceit, ego, wishful thinking, poor communications and lax oversight* (Centre for Business and Ethics 2006:3). The implication of these factors in terms of developing guidelines for handling future crises is that organisations will have to be absolutely ethical and moral in their crisis communications to counter-act the negative actions and perceptions that created the crises in the first place. Stevens (1999) also found that organisational cultures that blurred ethical boundaries contributed to financial crises and that the crises could only be addressed effectively after senior staffers were replaced and cultural changes implemented. Given these examples alone, one could deduce that the profit motive may frequently induce a lesser morality standard than that of societal norms. This suggests that organisations may be prone to scandal at some time

or other and that crisis communications will need to be honest, ethical and demonstrate what the organisation is doing to rectify the situation.

According to Irvine and Millar (1998) western-based commercial banks featured among the top five crisis sectors during the 1990s. In the past number of years South African examples abound. The case studies examined in this research are based on those crises that have typically made the news headlines of the financial media in recent years. They include an internet hacking crisis (Annexure A), a hostile take-over by a competitor bank (Annexure B) and a non-executive director being charged of corruption (Annexure C). The next section describes what typically occurs when an organisation is forced to deal with a crisis.

2.2.4 A typical description of an organisation in crisis

Seitel (2001:541) provides a typical description of an organisation in crisis. The views of additional scholars have been added to Seitel's (2001) descriptive framework.

- **Surprise:** When the crisis breaks, it is often unexpected and the communication team of an organisation only becomes aware of it when a journalist calls and wants to know what is being done about the issue.
- **Insufficient information:** According to Mersham and Skinner (2002), one of the biggest liabilities in any crisis is that often all the facts are not

available, especially in the early stages, and the danger is to act on that lack of information. Often information is ambiguous or conflicting. Augustine (1995) notes that companies sometimes misclassify a problem, focusing on the technical aspects and ignoring issues of perception. It is often the public perception that causes the crisis (Augustine 1995:153).

- **Escalating events:** The crisis starts to grow and people want answers.
- **Loss of control:** This begins to happen when many factors start to happen at once and chaos seems to predominate.
- **Siege mentality:** The organisation feels surrounded. Legal advisers are saying one thing and the organisation may feel that the easiest response is to say nothing. Seymour (1996) states that when panic sets in, management could refuse to acknowledge the fact that they are in a crisis. Kempner (1995:44) says an organisation's first instinct during a crisis may be to *draw in the wagons* and withhold comment from the media.
- **Panic:** The pressure mounts and a sense of panic pervades. It is difficult at this stage to get management to take immediate action and to communicate what is transpiring.
- **Increased outside scrutiny:** The media, employees and the public in general feed on rumours, the media want a response and investors

demand details. Seymour (1996) is of the opinion that there can also be an increased scrutiny of management, in particular by the media and shareholders. Effective crisis management is required to handle the somewhat chaotic situation endemic of many crisis situations.

2.2.5 Crisis management defined

Crisis management basically refers to the management or handling of crises by organisations (Lagadec 1990; Goodman & Marcus 1991). Crisis management comprises crisis communication to various stakeholders such as the public, employees, government and the **media**. It also includes consideration of operational issues such as emergency evacuation procedures, the establishment of crisis communication hotlines and planned schedules for back-up equipment and staff resources.

Darling (1994:4) describes crisis management as follows: *In essence, crisis management provides a business firm with a systematic, orderly response to crisis situations. This response permits the organisation to continue its day-to-day operations while the crisis is being managed. Furthermore, systematic crisis management creates an early detection or warning system. Many crises can be prevented – or at least coped with more effectively – through early detection.*

Darling's (1994) definition of crisis management is both practical and operational and stresses the need for crisis management to be ongoing in order to provide early detection of crises, so that the organisation can be prepared. Darling (1994)

even goes so far as to suggest that a crisis can be curtailed through effective crisis management.

Augustine (1995) incorporates into his definition of crisis management his belief that every crisis contains the potential for success as well as the risk of failure: *Finding, cultivating, and harvesting that potential success is the essence of crisis management* (Augustine 1995:148). Through this definition Augustine gives crisis management the additional responsibility of improving the organisation. Mersham and Skinner's (2002) definition, in contrast to that provided by Augustine (1995), has, perhaps, a more realistic approach to crisis management in that they ascribe it a protective role rather than an enhancement role. Mersham and Skinner also place the emphasis on the public relations or communications element of crisis management (2002:19): *Crisis management involves public relations-led techniques to protect the company's reputation and/or licence to operate when under threat from negative outside influences.*

Fearn-Banks (2002) contains her description of crisis management, and its aims, to reducing some of the risks and ambiguity posed by a crisis. Like Darling (1994), Fearn-Banks (2002) includes planning as a key component of this definition. Fearn-Banks (2002:2) states that: *Crisis management is a process of strategic planning for a crisis or turning point, a process that removes some of the risk and uncertainty from the negative occurrence and thereby allows the organisation to be in greater control of its own destiny.*

Kempner (1995) also acknowledges that proper preparation is a key factor in diminishing the potential negative impact of a crisis. Kempner (1995) claims that it is not the crisis that causes the potential downfall of the organisation, but rather, the poor handling of it. Anticipating potential problems and determining how to present them to the media will not just save valuable time during a crisis but will help an organisation to portray itself in the best light possible (Kempner 1995). Herein, Kempner (1995) stresses the aspect of crisis management that pertains specifically to communication to the media. Kempner (1995:48) further argues that successful crisis management can have a beneficial effect on the organisation's bottom line/profits.

For the purposes of this study, the following brief definition, which incorporates the key elements identified by the aforementioned authors, is applied: Crisis management is the preparation and management of an organisation's response (including its communication to the media) during a crisis in a beneficial manner.

According to Rockett (1999:7), crisis communication should not be viewed as a separate/speciality discipline to be managed only by public relations officers, communication practitioners or media specialists, but should be regarded as a corporate discipline directly overseen by the chief executive officer, and should be instilled into management at all levels. In a similar vein, Darling (1994:4) suggests that organisations should capitalise on the expertise of appropriate individuals from various operational areas in order to plan for and manage the crisis situation. As discussed in the section that follows, an organisation that does not manage a crisis well may risk its legitimacy, or license to operate.

2.2.6 Organisational legitimacy described

The concept of organisational legitimacy suggests that an organisation is granted legitimacy if stakeholders or the public believe an organisation is good, responsible and/or has the right to continue operations (Allen & Caillouet 1994; Hearit 1995). According to Allen & Caillouet (1994), an organisation with a negative perception in the media as a result of the poor handling or management of a crisis may forfeit its organisational legitimacy. Organisational legitimacy can therefore be linked to crisis management in the sense that both are regarded as managerial issues.

Gouws, Grobler and Schoonraad (2005:284) describe the concept of organisational legitimacy as a *licence to operate* afforded by society/stakeholders. Stakeholders can be the general public, social groupings, regulatory bodies, organisational shareholders, staff and the like. Legitimacy is built by conforming to the social rules and expectations of stakeholders and is critical to the successful operation of an organisation (Coombs & Holladay 2006). Society judges the legitimacy of an organisation based on its image (Puth & Steyn 2000) and the image of an organisation has been linked to significant outcomes such as attracting customers, generating investment interest, access to infrastructure and resources, attracting top employee talent and positive media coverage (Allen & Caillouet 1994; Gouws et al 2005).

A crisis is a threat or challenge to an organisation's reputation, and thus to its legitimacy, and an organisation will use communication strategically in response

to threats to its legitimacy, in the hope of influencing how the public view the organisation (Allen & Caillouet 1994; Barton 2001; Marcus & Goodman 1991). It could be said that a legitimacy gap arises if new information about the activities of an organisation suddenly becomes known, particularly if it differs dramatically from the image (Puth & Steyn 2000). Crisis management is employed to restore an organisation's legitimacy.

According to Boyd (2000:342), the corporate desire for public legitimacy has not always existed. In fact, before this century, corporations were not at all accountable to the consumer public, legally or otherwise, given that most of the regulatory agencies that govern corporate activity today did not exist (Boyd 2000:342). It was the investigative journalists of the early 20th century that changed the situation (Boyd 2000). Several exposés about companies that carried out oppressive labour conditions and were corrupt, forced big business to counteract the negative publicity that had up to that point been avoided (Boyd 2000). Since then, new regulatory agencies, greater competition and increased awareness have reinforced the idea that corporations do require some degree of public support (Boyd 2000). Corporate governance, or the responsible leadership and management of an organisation (Naidoo 2002:1), has become an essential requirement of business. It encompasses an organisation's accountability to the broader society in which it operates. Halal (2000:10) explains that corporate governance has evolved from a traditional profit-centred model to one which includes social responsibility. The 1994 South African King Report on Corporate Governance was one of the first of its kind, worldwide, to advocate an integrated approach to corporate governance that goes beyond

financial and regulatory aspects to include good social and environmental practice – the triple bottom line (Gouws et al 2005; King Committee on Corporate Governance 2002).

Nowadays, organisations attempt to influence public sentiment by various means such as identifying with legitimate external power figures, obtaining endorsements, making cash contributions to charity, complying with laws and standards, changing procedures, opening and closing communication channels and arguing that the organisation serves ends beyond its own (Gouws et al 2005; Mersham, Skinner & Von Essen 2001). A crisis could disrupt this productive work and it therefore is necessary that an organisation learns how to manage a crisis successfully to prevent its legitimacy from being upbraided. The next section on crisis communication with the media, an essential component of crisis management, deals with this issue.

2.3 Crisis communication with the media

This section deals with the aspect of crisis management that is the focus of this research: crisis communication with the media. Beginning with a definition of communication, relevant terms are described and defined for the purpose of clarity.

2.3.1 Communication defined

Basic scientific or mechanistic definitions of communication describe it as the linear *transmission and reception of information* (Angelopulo & Barker 2006; Griffin 1997:1). An exclusively mechanistic approach suggests a rigid portrayal of communication (Angelopulo & Barker 2006). Other more humanistic, approaches describe communication purely as the *generation of meaning* (Griffin 1997:1). Building on from this, contemporary theory and definitions regard communication not only as a dynamic process of exchanging meaningful messages, but as a transaction between participants during which a relationship develops (Angelopulo 2000; Angelopulo & Barker 2006; Mersham, Skinner & Von Essen 2001:73). Relationship building and maintenance is therefore considered to be a critical component of communication.

Most relevant to this study, because of its focus on organisational crises, is the definition of organisational communication provided by Puth and Steyn (2000:4) *Corporate communication is communication on behalf of an organisation. It is managed communication with the aim of increasing organisational effectiveness (and its reputation) by creating and maintaining relationships with stakeholders.*

This definition will be used for the purposes of this study because it incorporates the intentional aspect of communication, as well as the relationship component identified by scholars such as Angelopulo and Barker (2006). However, an addition to the definition has been made in brackets in order to stress the influence that communication can have on an organisation's reputation.

2.3.2 Media defined

The term media, the plural of medium, generally refers to the means (or intermediate agency) for the dissemination of communication (Webster's Dictionary 1995; Windahl, Signitzer & Olson 1992). Often the term is used synonymously with mass media (Webster's dictionary 1995:615), where the organised means of communication such as radio, television, the press and the internet, is aimed at the widest possible audience (Federman 2004). An individual corporation within the mass media is referred to as a media institution (Federman 2004). For the purposes of this study, the term media will refer collectively to the journalists who work for print media such as newspapers and magazines, digital media such as on-line/internet websites and broadcast media such as television and radio and news agencies (The Media List 2003).

2.3.3 Crisis communication to/with the media

Early definitions of crisis communication focus on the concept of persuasion and suggest that communication is asymmetrical, or one-way – from the organisation to the media. This reflects the sentiments of organisational power and control. For example, Sturges states (1994:303): *The objective of crisis communication, beyond coping with the aftermath of the crisis, is to influence public opinion development to the point that opinions held after the crisis are at the same level or greater in positive opinions and at the same level or lower in negative opinions.*

Coombs and Holladay's (1996:280) definition reflects a similar paradigm: *Communication can be used to influence how stakeholders interpret a crisis and the organisation in crisis.* In contrast, a basic, practical definition is offered by Mersham, Skinner and Von Essen (2001:287): *Every large organisation must be prepared to handle enquiries from the media or other interested parties arising from a variety of crisis situations.* These scholars suggest that crisis communication is largely reactive in response to approaches from journalists, and fail to mention the potential of crisis communication to influence public perceptions of the organisation.

Fearn-Banks's (2002) definition incorporates the concept of two-way communications between the public and the organisation, but suggests that crisis communication is merely akin to damage control. In this, Fearn-Banks (2002) appears to ignore the opportunity for crisis communicators to enhance an organisation's reputation by the effective management of a crisis: *Crisis communications is the dialogue between the organisation and its publics prior to, during, and after the negative occurrence. The strategies and tactics are designed to minimise damage to the image of the organisation* (Fearn-Banks 2002:2).

What can be interpreted by synthesising the essential components reflected in the definitions proposed by the aforementioned scholars, is that crisis communication, apart from having a practical role to dispense information to various publics during a crisis, can, like organisational communication (refer to

section 2.3.1) also be used proactively to guide and influence media and public perceptions about the organisation during a crisis.

For the purposes of this study, **crisis communication to the media** shall therefore refer to a pro-active process of symmetrical and informative communication to the media during a crisis situation, carefully crafted to protect or even potentially enhance an organisation's public image. This description adequately incorporates the essential components of crisis communication. Crisis communication to the media forms an integral part of an overall crisis management plan (refer to section 2.3.7), which includes communication to other stakeholders such as government, clients and employees. Because the focus of this study is on communication to one particular stakeholder during a crisis – the media – the next section discusses the value of this process and why it is the strategic focus of this study.

2.3.4 A contextualisation of the media and crises

Although the importance of communication to the media in a crisis has already been discussed, the following quote from Fearn-Banks (2002:67) succinctly illustrates its significance: *Do not assume that the crisis story will go away. The media can do their stories without you. They can build a case against your organisation, portrayed as "the bad guy," by talking with disgruntled employees, volunteers and customers, and even more often, by seeking out disgruntled former employees, former volunteers, and former customers. The media can also use computer files and call up long-forgotten problems and mistakes, and,*

in a few seconds, regurgitate them and place them before the eyes and ears of the public. The people thus hear the negative story.

The media often transmit the opinions of the general public, as well as moulding public opinion, based on what they publish (Bloom 2001). While the media respond to public awareness and opinions, it is the media themselves who are the major force in creating public opinion, according to agenda setting theory (Bloom 2001). The media dominates public information by serving as filters through which the public receives news and interpretations of crisis events (Bloom 2001). The media can thus create a crisis out of an event by putting it in the spotlight or play down the event by ignoring it (Skinner 1995). The information it chooses to publish, its visual and verbal symbols and the tone of its presentation can define the meaning of events and shape the attitudes of its audience (Bloom 2001). *The timing, content and tone of media coverage can upset or reassure the public or even create fear and complacency* (Bloom 2001:177). This persuasion technique is called the agenda setting theory and is closely related to the gate-keeping theory, which describes the function of editors who decide what and how a story is going to appear in the media (Bloom 2001).

Although the prevailing view today is that media audiences are active participants and the media do not merely inject information into users (Bloom 2001), organisational executives are highly sensitive about what gets published in newspapers and what is broadcast to the public about their organisation (Smith 2006). It is true, unfortunately, that bad news sells (Fearn-Banks 2002). A negative story is deemed more newsworthy than a positive one; the media

consider an organisation's positive news as *puffery* (Fearn-Banks 2002:65). Positive news is looked upon as a form of advertising and the media believes that all advertising must be paid for (Levine 2006). Bad news inevitably garners more public interest than good news.

The media's agenda in a crisis is to solicit facts and background information (Bloom 2001), in order to write a story with the purpose of meeting deadlines. By not providing a journalist with any facts, he or she will likely publish an article based on speculation (Bloom 2001). According to Fink (2005), there can often be an adversarial relationship between the media and the subjects it covers. Negative perceptions occur in the media when a crisis is occurring, and most of these are based on misunderstandings (Bloom 2001). According to Fearn-Banks (2002), this is ultimately why the media warrants management. Failure to manage the media suggests that the media will manage the organisation through bully tactics (Fearn-Banks 2002). When journalists request information the organisation in crisis must not ignore this, but rather view the request as an opportunity for the organisation to disseminate its message to the widest market of recipients (Gonzalez-Herrero 1996). The media will acquire a newsworthy story, regardless of the assistance of an organisation. An organisation has a far better chance of controlling the message and minimising the damage if it shares at least some information with journalists (Fink 2005).

Fearn-Banks (2002:48) describes *gotcha/in-your-face* journalism, often not accurate journalism at all, as a relatively new source of crises, emerging in the 1990s on television news shows and talk shows. *Unlike the reputable*

investigative news teams that have been doing consumer protection pieces for years, "gotcha" journalism has a new irresponsibility: a drive to entertain the viewer more than to protect the consumer (Fearn-Banks 2002:48). Levine (2006), trainer from the South African Institute for the Advancement of Journalism, warns of another development in the local media. Levine (2006) notes that the young generation of new journalists tend to *test the thin red line of slander while striving for celebrity status. The quality of journalism is on the decline and severe cost cutting exercises mean that fewer journalists are employed with less time to do research on stories.* Given this situation, organisations could, as part of their media relationship-building programmes, sponsor relevant **educational** seminars for young journalists. For example, financial institutions could host training sessions for journalists and use various in-house specialists to give interactive presentations on their field of expertise. Topical events and information on relevant issues such as economics, the retail housing boom, interest rates, black economic empowerment and so on, could be discussed. This could serve to introduce new journalists to the banking field and encourage them to produce informed material. It could also help to build positive relationships between the journalists and the organisational specialists which could lead to positive publicity, at no charge. Journalists could be encouraged to contact the specialists for comment on various news stories and in this way, the organisation could become known as an expert or authority on financial matters.

The media can be used as part of a strategy to contain the effects of the crisis (Mersham et al 2001:289). Messages can be sent to customers and the public through interviews with journalists or placed on internet sites. The public can

perhaps even be invited and encouraged to provide feedback or comment. However, having an online blog (comment) site could provide ideas for additional negative angles to newspaper and broadcast journalists covering an organisation's crisis. A hypothetical example of a newspaper article follows: Today on Absa's crisis hotline site, an irate customer, Mr Blog, posted a complaint that showed that despite Absa's reassurances about the safety of online banking, his account has been hacked into three times in the last month. A comment or feedback process from customers to an organisation in crisis can provide valuable insights, but need not be posted on a public site. Two-way communication can help companies to know and understand their audiences and their grievances. Mersham et al (2001) suggest that an organisation can win the confidence of adversaries or critics such as journalists by asking for their help in developing solutions to problems.

In summary, being accessible to the media and proactively communicating with journalists during a crisis is critical, according to Fink (2005:109) for the following reasons:

- It allows the organisation to be proactive rather than reactive.
- There is a greater chance of controlling the message.
- There is a 100 percent greater chance of correcting misinformation than if there is no communication with the media.
- Not engaging with the media sometimes makes the organisation look like it is not in control of the situation, and, furthermore, arrogant.

2.3.5 Communicating with the media during a crisis

During a crisis, executives typically receive two opposing chunks of advice (Kaufmann, Kesner & Hazen 1994). On the one hand, corporate lawyers may encourage extreme caution in speaking out publicly about a crisis. On the other hand, academics and crisis communicators suggest that executives should make full and immediate disclosures about the circumstances surrounding the crisis (Kaufman et al 1994). Though these two sides may not agree on what and how much should be said during crises, they both concur on one aspect: What you say or do not say will determine the outcome of the crisis for the organisation (Kaufmann et al 1994).

A policy of full disclosure during a crisis refers to communicating information about the crisis that is complete and timely to internal and external publics. Questions are answered completely and without delay. As Augustine (1995:155) states: *One's objective should be to get it right, get it quick, get it out, and get it over.* Trust and open communication with customers, above all other organisation concerns, are critical (Augustine 1995:154). When a response cannot be given immediately, investigations commence and a response is to be issued as soon as possible. The purpose of this open, timeous response appears to be to maintain credibility with an organisation's key stakeholders such as shareholders, employees and the public. Full disclosure is thought to minimise long-term damage to the organisation (Kaufmann et al 1994).

Another fundamental assumption of the argument for full disclosure is that all relevant information regarding the crisis will eventually emerge (Kaufmann et al 1994). Given this assumption, it is therefore essential for companies in crisis to deliver any bad news. If the public were to hear such news from third parties, they may assume that the organisation is attempting to withhold important information from them and thus be deceptive. Augustine states (1995:155): *My experience has been that it is preferable to err on the side of over-disclosure, even at the risk of harming one's legal position. Credibility is far more important than legal positioning.* Augustine (1995:155) goes on to say that sometimes a CEO must override the lawyers and that even in the face of contradictory evidence and confusing advice, one cannot simply remain silent.

Kaufmann et al (1994) suggest that a policy of full disclosure might encourage an organisation to be forgiven for its role in the crisis (Kaufmann et al 1994). Advocates of full and immediate disclosure also contend that the need for such a policy is even more acute when dealing with the media (Kaufmann et al 1994). Journalists are under tremendous pressure to meet deadlines in covering crisis situations (Bloom 2000; Mersham & Skinner 2002). If the information required is not provided swiftly by the organisation, they will seek it from other sources (Mersham & Skinner 2002). The effect of this on the organisation can be serious especially if the other sources are less knowledgeable, less reliable, or less sympathetic. Journalists may also approach sources that have a vested interest in wanting the organisation to appear in the worst possible light, such as attorneys for victims, competitors and special interest groups (Kaufmann et al 1994). A policy of full and immediate disclosure may therefore afford the

organisation an opportunity to control how the message is presented to the public (Darling 1994; Kaufmann et al 1994).

According to Kempner (1995), reporters should be given as much information as possible without jeopardising the organisation's reputation or disclosing highly confidential information. Although supporters offer compelling arguments for full disclosure, it is by no means an appropriate solution for all crisis situations (Kaufmann et al 1994). This is predicated on the assumption that all relevant information will come out eventually. The question is raised as to whether this is always the case. Kaufmann et al (1994:38) make the following point: *We have no way of knowing when an organisation has been successful in withholding information. The fact that the public may not have heard about a particular episode may mean that the company has successfully handled its crisis internally and averted a more public incident. What we do not see are companies that have adopted successful nondisclosure strategies.*

Although some lawyers acknowledge that their concern over litigation may subordinate other costs of the crisis, such as reputation loss, it is suggested that advocates of full disclosure may significantly underestimate the legal costs involved (Kaufmann et al 1994). The scope of potential negative publicity associated with a series of extensive public trials is inestimable (Kaufmann et al 1994). Although open and complete communications during a crisis may reassure consumers and the public at large, it may ignore other groups to which management maintains a fiduciary responsibility, such as stockholders and creditors (Kaufmann et al 1994). As such, decision makers who only consider

the interests of victims of a crisis may breach these necessary obligations (Kaufmann et al 1994).

Thus a policy of full disclosure policy has its own costs and risks. When crisis communicators encourage managers to act one way, while corporate lawyers advise them to act in an opposite fashion, senior executives may become confused. This raises the question as to which strategy executives should use to handle crisis communications. Given that there is no single answer to this question, it is suggested that these decisions are contingent upon the situation. Kaufmann et al (1994:35) propose five questions that could help the executive to make these decisions. They are:

- **Could non-disclosure be fatal or lead to further injury?**

If so, there can be no response other than full or timely disclosure. This is the ethical stance that an organisation should assume in a crisis. Augustine (1995:155) suggests that senior executives *set aside for a few minutes the voices of trusted advisers and, in as calm and dispassionate a manner as possible, evaluate in human terms the real issues and the real message.*

- **Is your organisation the culprit or the victim?**

If the cause of the crisis is external to the organisation, full disclosure is advised because the organisation can present itself as a fellow victim. Given the low probability of an organisation being blamed for failures originating in its remote environment, it would appear relatively easy for an organisation to engage in two-way symmetrical information processing with parties in its

environment during such a crisis (Engelhoff & Sen 1992:263). If the organisation is the culprit, for example through negligence, it may be forced to pay huge punitive damages. *Symmetrical information processing with outside parties is likely to be more difficult when failure originates in the firm's relevant environment. In this case the firm is more likely to be held responsible for the failure* (Engelhoff & Sen 1992:470).

- **Are the fictions surrounding the crisis worse than the facts?**

Rumours about a crisis can be more negative and damaging than the truth. In this case it is far better to reveal the story in as rapid a manner as possible. However, communicators also need to be aware of and prepare for any deep-seated issues or organisational skeletons in the closet that may be exposed as a result of the crisis.

- **Can the organisation afford to respond after the crisis?**

An organisation that makes full disclosure but then fails to take corrective actions may significantly increase its liability. Once liability is admitted, an organisation is legally liable to compensate victims for damages. Organisations not in a position to withstand the costs of such actions may want to rethink a strategy of full disclosure.

- **Can the organisation afford not to respond?**

Executives should remember that there are also costs of not responding. Disclosure is more important when used as a means of clearing the

organisation's name in order to protect its overall reputation or other products in its dominant businesses.

The preceding factors are important in helping managers identify an appropriate policy of crisis communications. Only with a complete understanding of the situation can executives do an effective job of weighing the total costs and benefits of disclosure.

According to Fink (2005:112), regardless of whether a spokesperson faces friendly or hostile media in a one-on-one interview or press conference, honesty is an important consideration. He states: *Being dishonest or less than honest with the media will only escalate your crisis into proportions that will stagger you. It will serve to destroy your present and future credibility with the media.* However, it could be argued that sometimes it is necessary, for the organisation's reputation, to withhold certain truths or information from the media. The crisis communication experts interviewed for this study all agree that honesty is paramount in dealing with the media, but at times appear to contradict this statement in their described actions, such as by withholding certain information. While the spokesperson does not necessarily have to tell everything they know, whatever they say must be the truth (Smith 2006). Patterson (1993:48) warns: *Once a reporter is lied to, a financial organisation spokesperson will have destroyed their reputation with all of the reporters covering the crisis.* A perceptive, investigative journalist is often able to detect deceptive or contradictory statements, as has been demonstrated countless

times by the cynicism, questions and incredulous attitudes reflected in media interviews and articles.

Whatever the decision chosen, most scholars agree that as far as the actual response is concerned, spokespeople should be cautious of phrases such as *no comment* (Fearn-Banks 2002; Kauffmann et al 1994:39; Mersham & Skinner 2002). These words are often interpreted as a confession of guilt. Even when no information is available, every effort should be made to ensure that reporters view the information as being provided as quickly as is possible (Kempner 1995; Mersham & Skinner 2002). If the answer to a question is not yet known, responding with a reply such as *we're still examining that issue* (Kempner 1995:44) is acceptable, as long as a pledge is made – and kept – to relay the information to the reporter as soon as possible. Mersham et al (2001:289) recommend that the organisation seize early initiatives by rapidly establishing the organisation as the single authoritative and reliable source of information about the crisis. Birch (1994) advocates this approach even when the organisation has little information to impart. How quickly and effectively an organisation responds affects its reputation, credibility, integrity and market performance (Calloway & Keen 1996:13). Organisations are advised to communicate regularly throughout the crisis but only with confirmed facts (Mersham et al 2001:289). The majority of the crisis communication literature wisely advises communicators not to speculate, not even minimally (Irvine & Millar 1999).

Even if an organisation intends to follow a controlled disclosure policy, professionals such as legal counsel, crisis experts and communication consultants should be used to construct an organisation's message, to ensure its careful crafting so as not to alienate the public (Kaufmann et al 1994; Mersham & Skinner 2002). To maintain or even enhance an organisation's reputation despite the crisis, Mersham et al (2001:289) recommend that an organisation be prepared to demonstrate human concern for what has happened. Mersham et al (2001:289) advocate messages to the media that impart care about what has happened and clearly demonstrate that the organisation is trying to put matters right. Augustine (1995) also stresses that the interests of the consumer must be top priority in all communications and advises against the use of jargon to ensure understanding of messages.

The careful crafting of a message to protect an organisation is the work of crisis communicators, but this work, as will be discussed in the next section, can be viewed by journalists in a derogatory manner to be spin doctoring.

2.3.6 Spin doctoring

In South Africa, the media are assigned the role of watchdogs of industry (Bloom 2000). There is a strong belief in the business community that an anti-business bias exists among journalists and reporters, that prevents businesses from getting fair and objective public exposure (Bloom 2000). On the other hand, journalists consider crisis communicators or public relations practitioners in a derogatory sense, that is, to be spin doctors (Esser, Fan & Reinemann 2001).

The term spin doctor was coined by journalists to describe the work of political public relations experts or media manipulators (Esser et al 2001). It has ominous, negative connotations, as a manipulator, conspirator and propagandist (Esser et al 2001:26). Esser et al (2001:26) describe a spin doctor as someone (they make special reference to someone in politics), who attempts to influence public opinion by putting a favourable bias on information presented to the public or to the media. In an objective sense, that is precisely what a media department or public relations department undertakes to do. It can be argued that the framing of a piece of information within the advocacy of an organisation is the essence of public relations practice (Mersham & Skinner 2001).

Spin doctoring has become a widely used term, particularly by journalists, to discredit the work of communicators. It suggests that communicators try to control the media's coverage and interpretation of crises and problems (Esser et al 2001). Nonetheless, according to Esser et al (2001:40) the media are dependent upon the essential information provided by media strategists or communicators, and the journalistic use of the term spin doctor can be problematic if it is used to *discredit the legitimate interest of politicians, parties and governments in asserting themselves against an autonomous and powerful journalism that pursues an agenda of its own and whose mechanisms and motives are not always exclusively oriented toward the public welfare.*

Putting the best light on a situation is, according to Mersham and Skinner (2002), a legitimate activity of media communicators. Perhaps a more suitable word than spin should be used to describe this activity. It is not lying: *You should*

never lie to the media (Smith 2006). Fink (2005:116) explains that crisis communications really is about *what you say and how you say it* and therefore truth or honesty, may be couched or framed in ways that protect the organisation from irreparable damage. Following a crisis, a corporation attempts, in the words of Giacalone and Payne, (1990:24) to *provide the public with a reasonable explanation for the event, carefully posturing the explanation to minimise the organisation's blameworthiness*. In other words, the crisis communicators redefine an understanding of the "facts" surrounding a crisis.

Woodward (2000:256), in his work on Transactional Philosophy, suggests that public relations has responded to criticisms against it by moving from one-way to two-way communication – and from emphasising knowledge and persuasion to relationship-building. Grunig's (2000) theory of excellence also stresses a two-way symmetrical approach to building relationships between organisations and their publics. Grunig (2000:34) states: *Recently, my research has moved toward the development and maintenance of relationships as the central goal of public relations*. This suggests that maintaining good relationships with journalists, as one of the key stakeholders of communication, is becoming a priority of organisational communicators, and should be a key feature of planning in advance for effective crisis communication, with the media. Symmetrical communication implies a greater emphasis on social responsibility and ethical behaviour on the part of communicators (Grunig 2000).

2.3.7 Planning in advance for crisis communication with the media

In contemporary society, business crises are no longer a matter of if, but when, no longer the exception, but the expected – even the inevitable (Bloom 2001:79; Mersham & Skinner 2002). Given that crises can damage – even terminally – careers or an organisation (Pinsdorf 1999) it is not unexpected that much of the literature on crisis management is focussed on planning for a crisis. Planning in advance is an important element in a crisis management programme, so that when a disaster does strike, the crisis team will know exactly what to do about it and can be pro-active (Bloom 2001). Formulating a response to a crisis when the pressure is intense is not the best option (Bloom 2001). Failure to plan suggests that an organisation may go into defensive mode and react negatively (Regester & Larkin 1997).

According to scholars such as Angelopulo and Barker (2006), Bloom (2001), Fearn-Banks (2002) and Skinner et al (2001), to lay the groundwork for successful crisis communications with the media, the crisis communications head should be an important part of the top management of the organisation. In addition, Angelopulo and Barker (2006) and Kaufmann, Kesner and Hazen (1994:38) recommend that a useful starting point for pre-crisis planning is to appoint a crisis management team composed of people who are creative, knowledgeable of the business, powerful (have the authority and responsibility to make decisions and allocate resources quickly), and are able to bring a variety of unique perspectives to bear on solving issues. Included in this team should be a lawyer, to explain the legal implications of disclosing information, and a public

relations expert, to explain the consequences of disclosure for the organisation's image. The team should also comprise a senior manager whose responsibility it is to combine the two types of advice and make a final decision on the optimal level of disclosure for an organisation during crisis (Kaufmann et al 1994:38).

Programmes should be designed to build ongoing relationships **prior** to the crisis with all key stakeholders of an organisation such as the media, employees, unions, special interest groups, consumer advocates and other relevant parties (Puth & Steyn 2000). Training sessions to educate journalists about the organisation and its business can serve to build credible relationships with journalists (refer to section 2.3.4). Sometimes these relationships can help prevent crises. At other times, they can help lessen the severity of crises. According to Coombs and Holladay (2006) prior relationships with key stakeholders is an important consideration in protecting an organisation's reputation during a crisis, and also helps to facilitate its repair.

Identifying exactly which people could be affected by the crisis is an important consideration during the planning phases (Bloom 2001). Questions should be asked such as: *Who could be affected? Who could affect us? Who needs to know?* (Bloom 2001:102). This includes the internal staff as well as the public. In this way the target population is segmented into smaller groups so that messages can be communicated with each of these groups.

A two-way symmetrical programme of communications should be the basis of all organisational communication (Grunig 2000). This is also referred to as the mutual understanding model in that the practitioner attempts to achieve a dialogue with strategic publics, not a monologue (Mersham & Skinner 2002).

Either management, or the publics, may make changes in behaviour as a result of this two-way model of communication. This is in contrast to one-way models of communications that are premised on persuasion and very little feedback. Symmetrical communication means that the intended effect of the communication is of benefit to both parties equally, through an open and frank exchange of information (Grunig 2000). Asymmetrical communication implies a screening of the information communicated in order to favour one's own position (Engelhoff & Sen 1992).

As part of the planning process, the crisis team should anticipate issues that could turn into potential crises and rank them according to the probability and possible damage that might occur (Fearn-Banks 2002). This is termed issues management (Darling 1994; Fearn-Banks 2002; Mersham & Skinner 2002). Strategies and tactics are developed and implemented to lessen the likelihood of issues turning into crises (Angelopulo & Barker 2006). The crucial element here is early identification of potential issues or crises and this is dependent on having symmetrical communications in place. Issues management is thus proactive (Puth & Steyn 2000). The solution might involve forming allies with potential adversaries or meeting with community activists to explain an issue that might be construed as damaging by consumers (Fearn-Banks 2002; Puth & Steyn 2000). The successful handling of an issue may prevent a crisis from occurring. What may assist this process is if the organisation conducts public opinion research or an audit on the organisation's strengths and weaknesses (Bloom 2001; Puth & Steyn 2000). It is essential to have a full understanding relating to the potential threats to the business (Seymour 1996). According to Fearn-Banks (2002), the

importance of the crisis inventory is to force organisations to consider the possibilities. The ranking procedure may encourage ideas for prevention programmes. When formulating strategies to deal with crises, it is important to keep in mind the worst-scenario approach (Regester & Larkin 1997). Questions must be asked such as: *Where are the greatest risks? What are the implications if a crisis strikes?* (Katz 1987:46). Involved in this process is the reviewing of all previous crises faced by the organisation or its peers in the industry (Mersham & Skinner 2002). A news clipping service to pick up industry/product stories can be employed, but key to this is to analyse the information into a source of intelligence for the organisation (Irvine & Millar 1998).

Next to the listing of potential crises, the information that the organisation is prepared to communicate should be noted (Fink 2005). For example, in the case of internet fraud (refer to the Absa example in annexure A), backup statistics such as those listed below could enable the crisis team to quickly issue statements: Prior to this incident of fraud, in the past five years only xxx incidents of fraud have been reported, which represents one percent of the total number of transactions done during this period. We have world-class security systems in place as reported by industry bench-marker, World Wide Works.

The crisis communication plan forms part of a larger crisis management plan – which includes information such as evacuation procedures, emergency staffing, places to rent emergency equipment – or it could be a stand-alone document. Fearn-Banks (2002) states that it should be manageable and easy to read. A list of factors that should be included in the crisis communication manual includes:

- Names of members of the crisis team, their responsibilities/duties and phone numbers (Baird 2006).
- The plan should identify the various stakeholders (such as the media, government, the public) for each potential crisis and appropriate contact details such as telephone and e-mail addresses must be readily available (Angelopulo & Barker 2006; Baird 2006).
- Pre-prepared messages or guidelines indicating what can be said in the first media statement (Baird 2006; Baker 2000) are helpful. It is useful to have a straightforward one-paragraph statement that can be used until further information is available such as (Irvine & Millar 1998:40):
Regarding the news report of a xxxxxxxxxxxxxxxxxxxxxxxx this is what we can confirm at the present time. At approximately xxxxxxxxxxxxxxxxxxxx we were alerted that xxxxxxxxxxxxxxxxxxxx (fire, explosion, shooting, looting etc.). We have called for assistance from xxxxxxxxxxxxxxxxxxxx (police, fire, etc.) and have notified management. At this point we do not have any details regarding what happened but will update you as soon as we have additional verified information. Please bear with us in the meantime. Thank you for your consideration.
- Resources (where things are): Establishment of a communication system and preparation of appropriate facilities and equipment (Mersham et al 2001; Baird 2006).

- Briefing notes (processes and how things work), or a clear definition of the organisation's policy and procedures for handling a crisis (Angelopulo & Barker 2006; Mersham et al 2001; Puth & Steyn 2000). The briefing notes could include issues such as what medium of communication is most useful under what circumstances: a press interview, press conference, holding statement, or media release. Added to this should also be a communication response list of actions that may need to be taken at the outset of the crisis (Mersham et al 2001). The crisis team must have knowledge of who the target audiences are likely to be, who the key people are in the organisation, what the internal briefing procedures are and what the external communications procedure is (Bloom 2001).
- Facts and figures about the organisation, such as the number of staff employed and amount of bank branches, ATMs and their locations, amounts donated to charities, position papers representing the organisation's view on various controversial topics such as bank charges, black economic empowerment, social responsibility and such relevant information, should be kept constantly updated (Baird 2006).
- Evaluation of the effectiveness of actions taken and the effects of the crisis on the organisation's reputation (Angelopulo & Barker 2006; Baird 2006).

Being prepared involves planning, training, exercises and corrective action. Once the media training has taken place, the whole crisis plan needs to be tested (Regeister & Larkin 1997:120). This is carried out by conducting simulation and mock crisis drills to assess an organisation's state of communication's readiness (Bloom 2001; Baird 2006). The concept of realism is a crucial aspect and when a drill or exercise is developed it should be tailored to the exact needs of the financial organisation (Bloom 2001).

According to Bloom (2001), the fact that an organisation has a set plan to deal with a range of issues and crises does not mean that it is ready to tackle any crisis. It should also be noted that a communications plan should be flexible (Angelopulo & Barker 2006; Bloom 2001), as circumstances change constantly and these must be managed to the organisation's advantage. Flexibility is necessary, as responses need to adapt to new information coming in and to changes in circumstance (Carney & Jorden 1993). Stevens (1999) warns against rigidity as no crisis will ever adhere to a preconceived blueprint. Delaney (1991) concurs that a good crisis plan, no matter how detailed and complete, should only be used as a framework to consider issues and make informed decisions. Bloom (2001) states that plans should never be used as a substitute for clear and firm decision making. Kaufmann, Kesner and Hazen (1994) agree that response policies, even if identified early, should be treated as guidelines rather than invariable rules carved in stone. In a crisis, the key is to maintain flexibility so that the response fits the situation (Angelopulo & Barker 2006; Kaufmann et al 1994:38). Flexibility, however, requires that crisis decision makers understand the full range of response options explained in section 2.3.5.

Media training, as discussed in the next section, is an important part of preparing for a crisis in advance.

2.3.7.1 *Media training*

Because of the potential influence that the media has on public perceptions it is necessary that a comprehensive media training programme forms part of any crisis plan. Mersham and Skinner (2002) claim that media training is vitally important, because if a spokesperson cannot handle a media interview, they can come across totally lacking in credibility and honesty. Regester and Larkin (1997) concur that media training is important because it can influence perceptions about the organisation's handling of a crisis. Being media trained will help the spokesperson to be effective in communicating the organisation's messages to its various publics. The fact that the media can carry a spokesperson or their organisation's image world wide in a split second underscores the necessity for media training. The alternative could be serious damage to an organisation's reputation.

One of the most highly regarded methods of media training, according to Baird (2006), is the effective development of question and answer sessions. It is in these sessions that potential probing questions that the media may ask the spokesperson are brainstormed and accurate, well-conceived answers developed to prepare the spokesperson in advance (Baird 2006; Bloom 2001; Carney & Jorden 1993; Mersham & Skinner 2002). Role-play is another valuable tool for media training (Baird 2006). This is where a crisis team member adopts

the role of a journalist and puts the organisation's spokesperson through a series of strenuous and aggressive interviews (Bloom 2001; Fearn-Banks 2002). This is when the question and answer session, already mentioned, is applicable.

A spokesperson can be trained to diffuse difficult or tricky questions and manage journalists who may be hostile (Baird 2006; Fearn-Banks 2002). A skilled communicator will know how to turn an interview to his or her advantage by using the opportunity to promote the organisation's key crisis messages, no matter how leading or antagonistic the questions from the interviewer (Baird 2006; Fink 2005). One tactic is for the spokesperson to refer only slightly to a negative question and then make a positive statement about the situation (Englehardt et al 2004). For example, First Rand's CEO (refer to Annexure B) used this tactic when he acknowledged the allegations against the organisation chairman but then assured the public that First Rand's board followed the principles of independence.

When dealing with broadcast reporters, corporate spokespeople should ideally answer questions with key messages in easily digestible 15-to-20-second sound bites, rather than longer statements that can be taken out of context through the video editing process (Baird 2006; Kempner 1995:47; Mersham & Skinner 2002). Should the spokesperson need a moment or two to derive a positive, informative reply, repeating the question buys a little more time (Kempner 1995:47).

According to Mersham and Skinner (2002:100), the spokesperson is the key individual in crisis communication. They state: *In the eyes of the public and the*

media, this person represents the total company and what it stands for. Due to the importance of selecting a spokesperson carefully, the following section provides some guidelines for this process.

2.3.7.2 Selecting a media spokesperson

Mersham and Skinner (2002) suggest that centralising all media contacts with a single spokesperson minimises the possibility of conflicting statements. Kaufmann et al (1994:38) also recommend that a single person should be identified to handle public communications because organisations that do not do this in advance *may find themselves facing a confusing array of mixed messages when a real crisis hits.* Coombs (1999b) also suggests that responding consistently during a crisis is advisable to make messages credible.

Very often it is recommended, in the case of serious crises, that the Chief Executive Officer (CEO) becomes the spokesperson for the organisation (Fearn-Banks 2002; Mersham & Skinner 2002). In contrast, Irvine and Millar (1998:88) argue that the CEO should not be the primary spokesperson for the organisation during a crisis. The reason they give for this is that if the CEO makes a mistake or does not convey the important points in a convincing, compassionate way, no one else in the organisation is in a position to undo the damage (Irvine & Millar 1999). Kaufmann et al (1994) propose that the spokesperson should vary depending on the crisis. Although the media would prefer this person to be the CEO, it may not always be the most appropriate choice. This is because the CEO may be weak in certain areas, such as technical knowledge, and thus may

be less effective (Kaufmann et al 1994:38). However, Augustine (1995) argues that in situations that truly threaten the organisation's reputation or existence, the CEO belongs in the front lines. The crisis communication consultants in the case studies (refer to Annexure A, B and C), regarded the CEO as the most appropriate person to handle the crises that they were confronted with because of their perceived severity (internet fraud: Absa; hostile take-over: Standard Bank; actions of non-executive chairman: First Rand). It thus appears that the choice of spokesperson should be dependent on the nature and severity of the crisis situation.

An important criterion for any spokesperson is that he/she must be accessible throughout the crisis to meet with journalists and to answer their questions (Engelhardt et al 2004). The CEO of Standard Bank's (refer to Annexure B) willingness to answer questions, and even personally meet with journalists and receive phone calls from reporters in the weeks following Nedbank's hostile take-over attempt, is an example of Druckenmiller's (1993) protection of corporate image via accessibility to the CEO in action.

2.4 Conclusion

This chapter focused on crisis communication with the media and defined and described crisis, crisis communication and crisis management from different scholarly perspectives. It is suggested that a notable part of the literature is focused on the fundamentals of planning for a crisis, media training and selecting a media spokesperson and that lesser attention is given to the actual

content of crisis communications. Media attention is identified in the literature as endemic to most crisis situations (Gonzalez-Herrero 1994; Mersham & Skinner 2002) and scholars such as Benoit (1997) and Coombs (2004) concur that an organisation's response to journalists can have far reaching effects on its reputation. The focus of this research – communication to the media during a crisis – is therefore given credence.

The following definition of crisis communication to the media was developed to incorporate its essential components: Crisis communication is a pro-active process of symmetrical and informative communication to the media during a crisis situation, carefully crafted to protect or even potentially enhance an organisation's public image.

The argument is made that although prior planning is essential to good crisis communication management, the key in a crisis is to maintain flexibility so that the response suits the situation and can adapt to changes in circumstances. Flexibility requires that crisis decision makers understand the full range of response options.

A point raised in this chapter is that in a crisis, executives usually receive two opposing recommendations (Kaufmann, Kesner & Hazen 1994). On the one hand corporate lawyers may encourage extreme caution in speaking out publicly about a crisis. On the other hand, academics and crisis communicators suggest that executives should make full and immediate disclosures about the circumstances surrounding the crisis (Kaufman et al 1994). Though these two

opinions may not agree on what and how much should be said during crises, they both concur on one aspect: What you say or don't say will determine the outcome of the crisis for the organisation (Kaufmann et al 1994).

The careful crafting of a message to protect an organisation is the work of crisis communicators but, as explained, this work is often described in a derogatory sense by journalists as spin doctoring. It was suggested that reframing or putting the best light on a situation to protect an organisation, without lying, is acceptable public relations practice.

Theories and models relevant to the field of crisis management and communication are discussed in chapter three which follows. Many of the principals discussed in this chapter are incorporated into the theories and models discussed in chapter three.

CHAPTER THREE

CRISIS MANAGEMENT AND CRISIS COMMUNICATION THEORIES AND MODELS

3.1 Introduction

In chapter two, principles relevant to the study of crisis management and crisis communication to the media (a component of crisis management) were discussed and contextualised. Media attention was identified as a common thread running through all organisational crises and the importance of communicating to the media during a crisis was highlighted. It was acknowledged that the **content** of crisis communication – what an organisation says to the media or does – can have a critical impact on an organisation's reputation.

In this chapter, theories and models relevant to the field of crisis management and crisis communication are discussed in order to lay a foundation for the conceptual model of crisis communication to the media as proposed in chapter six. These theories range from the traditional linear to the more progressive open systems approaches. While these approaches acknowledge the importance of communication decisions made during a crisis, none of them actually examines the content of these decisions in detail. The exception is the situational crisis communication theory, elements of which have been adapted for the basis of the conceptual model designed from this research.

3.2 Dominant theoretical approaches to crisis management and crisis communication: traditional linear versus progressive systems approaches

This section presents an overview of selected theoretical approaches to crisis management and discusses the most prominent models emanating from these approaches. According to Hale, Dulek & Hale (2005), crisis management is multidisciplinary, uniting management theory with psychological, social political and public relations perspectives. A theoretical approach, in the context of this study, refers to ways of conceptualising and practicing crisis management (Angelopulo 1997). Models derived from theories refer to simplified ways of representing the thinking on crisis management and crisis communication, much of which has been discussed in chapter two. These models can also be described as pictures but could be criticised because they tend to over-simplify dynamic communication processes. However, they provide order to sometimes complex issues which allows for clarification and interpretation. Theoretical approaches and models are often tested for their viability.

For the past century, both the natural and social sciences have been dominated by metaphors of well-regulated and predictable machines (Gayeski & Majika 1996:22). According to Gayeski and Majika (1996:22) much classic crisis management research has been based on a mechanistic view of control. For every action, there was a specific reaction and communicators believed that it was possible to predict how audiences would react to a carefully crafted message (Gayeski & Majika 1996:22). This traditional linear cause-effect view

is questioned by progressive systems theory which takes into account the dynamic interdependence of factors such as context and the mind in meaning-making (Bruner 1990; Gergen 1999). The calculation of probabilities, rather than absolute predictions has become the norm (Gayeski & Majika 1996).

The application of the **traditional linear approach** to crisis management and crisis communication suggests the following:

- In the old traditional paradigm of seeing the world and organisations in a linear, mechanistic way, crises were seen as signs of trouble (Keene 2000: 15). Organisations following this approach seek to control their environment and experience frustration when it behaves in a way that is incongruent and in conflict with the operation of the organisation.
- The organisation is viewed as a closed system with information only flowing out of it in a linear, one-way fashion (Grunig 2000). Such asymmetrical or persuasive communications (Grunig 2000) is the key to control or manipulation. These dyadic, sender-receiver models emphasise transmissions and their effects (Woodward 2000:258).
- Traditional organisations are essentially conservative and resist change at all costs (Grunig 2000). The crisis communicator's role is to defend the status quo (Holtzhausen 1995).

- The linear assumption is that there are defined steps or actions the crisis communicator can take to control the situation during a crisis. The traditional view focuses on ways to simplify things in an effort to get control (McDaniel 1997:26).

In contrast **progressive, systems approaches** to crisis communications are premised on the following assumptions:

- Environments are dynamic and change and uncertainty will come to pass irrespective of organisational efforts to control and direct (Keene 2000:16). Crises are viewed as leading to opportunity or beneficial restructuring (Bloom, Crystal & Verwey 2002).
- The organisation is viewed as a system open to other interpenetrating systems and freely exchanges information with those systems. The emphasis is on relationships, two-way communication, interconnectedness and interdependence (Pearson 1989b:72) while taking into account social, economic and political contexts (Woodward 2000).
- Crisis communication encourages understanding between the organisation and its publics, is ethical and socially responsible; persuasion and one-way or asymmetrical communication is less desirable (Grunig 2000). Crisis communicators practising symmetrical public relations tend to have an interactive and cooperative relationship with the media whereas asymmetrical or traditional practitioners usually

try to manipulate the media agenda and continually experience conflict with journalists (Grunig 1990).

- The crisis communicator's role is to assist the organisation to co-operate and adjust to the outside environment through negotiation not through linear, controlled steps or force (Holtzhausen 1995:52). Mersham et al (2001) believe that the crisis communicator should solicit the public's involvement in the problem as they can assist in solving the crisis.

The following table illustrates the main differences between the two contrasting approaches.

Table 3.2:

Summary of differences between the traditional linear versus progressive systems approaches

Views	Traditional Linear Approach	Progressive Systems Approach
Organisations	Closed systems	Open, interconnected systems
Communication	Asymmetrical (one-way)	Symmetrical (two-way)
Crises	Signs of trouble. Seeks to control.	Opportunities for improvement. Co-operate and adjust to changes through stakeholder negotiation and support.

The progressive systems approach is in itself a criticism of the traditional linear approach in that it presents an alternative, contrasting view. Unlike the linear approach, the systems approach acknowledges the interconnectedness of organisations to their dynamic environments. It recognises that in order to succeed organisations need to understand and adapt to situations, rather than to resist in favour of the status quo. Two-way symmetrical communication is favoured as a means to engage with publics and solicit their support, instead of one-way persuasive communication styles - the preference of traditional organisations.

Based on these differences, the models and theories discussed in the next section can be classified on a continuum between the linear, traditional approaches to the more progressive systems approaches.

3.3. Models leaning towards the traditional continuum

The following models can be described as leaning towards the traditional continuum:

- Meyers and Holusha's model
- Stage models of crisis: Fink, Mitroff, Horsley and Barker
- Hale, Dulek and Hale's linear crisis response model

3.3.1. Meyers and Holusha's Model (1986)

Meyers and Holusha's model (1986) can be viewed as a traditional model because of its bias towards control. The relevance of it to the field of crisis communication is that it provides a framework for practitioners to understand crises and act accordingly.

Meyers and Holusha's model analyses a crisis on the basis of four major considerations (Meyers & Holusha 1986:207-216):

- Dimension: the size of the crisis
- Control: the ability of the organisation to influence the environment
- Time: the time in which the organisation has to manoeuvre
- Options: the number and quality of options available to the organisation

According to Meyers and Holusha (1986), the way in which these factors relate indicate what management tools should be applied. For example, a crisis that can be categorised as **low dimension, low control**, means that the outcome does not greatly depend on how management acts or what communication is issued to the media (Gonzalez-Herrero 1994).

A crisis that can be categorised as **high dimension, high control** signifies that the situation is of greater seriousness, but the organisation is still able to effectively manage the crisis. However, an incorrect action or badly compiled communication could put the organisation at risk (Coombs 2004).

The most threatening categorisation is that of **high dimension, low control**. In this case the type of communication actions taken are extremely critical, as the risks to the organisation are great (Meyers & Holusha 1986).

Like Cantor's (1989) description of crises based on their time-scale (refer to section 2.2.2), Meyers and Holusha's model (1986), while providing a useful categorisation of the nature of a crisis and the available time and necessity for response, does not offer anything further. Its value is restricted to mere description and categorisation and it provides no guidelines or tools on how to manage stakeholders such as the media or staff in each crisis category. It could also be argued that Meyers and Holusha's model (1986) can only really be applied retrospectively, after a crisis. This is because it is not always possible to know at the outset what the dimensions of the crisis will be or how long it will last.

It could also be argued that every crisis, no matter how small or insignificant it may initially appear, should be dealt with as if it was in the most dangerous category as proposed by Meyers and Holusha (1986). This is because a small crisis or issue could develop into a larger, more serious challenge. In fact, the control of issues, before they get to crisis point, is acknowledged in the literature as an important component of crisis management (Fearn-Banks 2002; Fink 1986). Issues management is discussed in section 2.3.7 titled planning in advance for crisis communication with the media. Meyers and Holusha's (1986) belief that the outcome of **low dimension, low control** is not dependent on how management act or what communication is issued to the media - is

challenged. It is proposed that an incorrect action or inconsiderate/ill-considered communication to the media can create additional bad publicity for an organisation. The views of authors such as Bloom (2001), Mersham & Skinner (2002), Fearn-Banks (2002), Hale, Dulek and Hale (2005) presented in section 2.3.4 support this statement by underscoring that an organisation's response to journalists can have far reaching effects on its reputation. It could thus be disputed that the categorisation proposed by Meyers and Holusha (1986) could be more damaging than useful. The limitations of Meyers and Holusha's model (1986) preclude its inclusion into the model to be developed through this research. Fink's model (1986), to be discussed, highlights the importance of recognising **prodromes** or warning signs and thus addresses one of the chief criticisms of Meyers and Holusha's (1986) model which is the lack of attention to issues that could evolve into crises.

3.3.2 Stage models of crisis: Fink (1986); Mitroff (1988); Horsley and Barker (2002)

In this section, three influential stage models of the entire crisis management cycle will be discussed. These models lean towards the traditional continuum because of their step-by-step linear description of crises. They include Fink's (1986) stage model of crisis, Mitroff's (1988) stage model of crisis and Horsley and Barker's (2002) synthesis model of crisis management. The principals of these models are reflected in the literature on crisis management discussed in chapter two.

3.3.2.1 *Fink's stage model of crisis*

Fink's (1986) stage model of crisis uses the metaphor of illness and details four distinct stages or stages through which a crisis evolves:

- Prodromal or prevention
- Acute
- Chronic
- Crisis resolution

His emphasis is strongly on the **prevention or prodromal stage**. He believes that crises, like illnesses, usually present warnings which he terms prodromes (Calloway & Keen 1996). Long before a triggering event occurs, symptoms appear as precursors to a crisis (Sturges 1994). These precursors represent repeated messages and persistent sets of clues that, if recognised, may help an organisation to implement activities intended to anticipate a crisis in order to exploit its benefit or reduce its negative consequences (Sturges 1994). Sometimes these may be as obvious as union leaders informing management that members will strike in 24 hours. Other prodromes can be oblique and hard to recognise (Calloway & Keen 1996) and it is incumbent on management to uncover and address these. *Any measure, such as a risk audit, that minimises the uncertainty in a given situation and thereby allows for more control of an outcome is, according to Fink (1986:19), a form of crisis management.* Fink (1986) suggests that it is much easier for the crisis team to address a crisis in its prodromal stage.

The literature supports Fink's (1986) focus on prevention. For example, Gonzalez-Herrero (1994) suggests that an organisation should scan the environment looking for trends that may affect it in the near future – also called issues management. Organisations that remain sensitive to their environments, to important audiences, and to relevant trends are better positioned to recognise a crisis (Sturges 1994). Refer also to discussions on issues management which support Fink's model in section 2.3.7.

The **acute stage** evolves when efforts at avoidance fail and events trigger a crisis. This stage is described by Fink (1986) as high in intensity and speed and it is believed that the ability of management to control this stage depends on the quality of planning undertaken in the earlier stage. Nevertheless the key, according to Fink (1986:23), is to try and control as much of the crisis as possible by, for example, deciding to release the bad news to the media after journalist deadlines on a Friday afternoon. This would mean that the media would have to go with the story as presented by the organisation, or maybe not even use the story at all.

The **chronic crisis stage** is, according to Fink (1986:23), a period of recovery, healing or self-analysis. During this time the crisis is turning the corner and the organisation is perceived to be resolving the issues (Glascock 2004). It could also be a time of financial upheaval, management shake-ups, hostile take-overs or bankruptcy (Fink 1986). A skilful crisis manager will analyse the management of the crisis and take appropriate actions to rectify any mistakes. The chronic stage can linger indefinitely, but according to Fink, those

organisations without a crisis management plan suffer the lingering effects of a crisis much longer than those that are prepared. While Fink (1986) offers no clear-cut distinction between the acute and chronic stages, one criterion might be the intensity of media coverage, which may lessen during the chronic stage (Glascock 2004).

The **crisis resolution** stage in Fink's model means that the crisis is over. Using Fink's analogy of illness, *the patient becomes well and whole again* (Glascock 2004:42). However, Fink warns that crises historically evolve in a cyclical fashion and that another prodromal signal may be on the horizon, thereby suggesting the start of a new crisis (Fink 1986). In this, Fink (1986) suggests that an organisation should always be on guard for signs of crisis, a warning that is reflected in the literature on crisis management discussed in chapter two.

The influence of Fink's model on the field of crisis management is clear in that much of the literature is focused on the prevention/planning stages (refer to chapter two). Fink's model offers a useful description and understanding of the stages of a crisis but does not appear to provide much detail on how an organisation should respond to a crisis in the media, or the content of such communication.

3.3.2.2 Mitroff's stage model of crisis

Mitroff's (1988:15-21) stage model is similar to that of Fink's with the exception of an additional stage. Mitroff's (1988) five-stage model is based on the stages through which a crisis moves and on the corresponding types of crisis management:

- signal detection,
- preparation/prevention,
- containment/damage,
- recovery and
- learning.

By describing two stages before the actual crisis event takes place, as opposed to Fink's (1986) single prodromal stage before the crisis hits, Mitroff (1988) places even more emphasis on the prevention stage of crisis management.

Signal detection and preparation/prevention constitute proactive types of crisis management and are aimed at preventing crises from occurring (Mitroff 1988). Actions during this stage could include the creation of crisis teams, crisis training and simulation exercises as discussed in chapter two. **Containment/damage** limitation and recovery are reactive activities conducted after a crisis to contain its damage or recover from its effects. Like Fink (1986), Mitroff (1988) believes that the success of containment depends on the planning stage as it is difficult to innovate during the crisis. During the **recovery**

stage the organisation reinstates its normal business operations (Calloway & Keen 1996).

The two stage models of crisis management by Fink (1986) and Mitroff (1988) clearly emphasise the importance of the planning stage to the success of crisis management and are thus pro-active in approach. A constructive insight gleaned from both authors is the value of issues management – to prevent issues from becoming crises. This insight has found its way into crisis management literature (refer to 2.2.5). However as Pearson and Claire (1998) warn, executives may develop a false sense of security around their crisis prevention plans and may be taken completely off guard when a crisis strikes. Both Fink (1986) and Mitroff (1988) do appear to place more emphasis on the stages prior to the crisis, rather than on the actual crisis stage which occurs when efforts in previous stages have failed to curtail the onslaught of a crisis. It could also be said that a crisis cannot always be planned for because it is not expected.

A further criticism is that these scholars describe a linear, orderly progression of stages, from signal detection to the recovery of normal operations after the crisis - which may not necessarily describe the evolution of a dynamic crisis. According to scholars such as Seitel (2001), discussed in section 2.2.4, escalating events, floods of queries from journalists and chaos are characteristic of most crises environments. Nevertheless, Fink (1986) and Mitroff (1988) make the important point of stressing the inevitability of crises and the necessity for vigilance.

The next stage model by Horsley and Barker (2002) appears to build on the models described by Fink (1986) and Mitroff (1988) by including in the planning stage the important criteria of relationship building or public relations prior to the crisis and on an on-going basis. These criteria are neglected by the aforementioned models. By suggesting that relationship building is a continuous process, Horsley and Barker's (2002) model appears to be a slightly less linear and step-by-step as compared to the models proposed by Fink (1986) and Mitroff (1988).

3.3.2.3 Horsley and Barker's synthesis model of crisis management: 2002

Horsley and Barker's (2002) synthesis model of crisis management provides a partial insight into the understanding of crisis management and crisis communication. Horsley and Barker's (2002:416) synthesis model includes the following five interconnected stages or stages:

- ongoing public relations efforts;
- identification of and preparation for potential crises;
- internal training and rehearsal;
- the crisis event or crisis response stage;
- the evaluation and revision of public relations efforts.

Highly notable is that Horsley and Barker (2002) allocate three stages to the preparation for a crisis, to highlight its importance, which differs from Mitroff's (1988) allocation of two preparation stages and Fink's (1986) specification of

only one stage prior to the actual crisis event which he terms the prodromal stage.

Stage one: planning or prevention/ongoing public relations efforts

Like Mitroff (1988) and Fink (1986), Horsley and Barker (2002) advocate a proactive approach to crisis communication and crisis management. However, Horsley and Barker (2002) retain a focus on diligent image building and continuous thought to public and media relations in good times so as to ensure that communication systems are in place when they are really needed – during a crisis (Horsley & Barker 2002). A constructive relationship with the media helps companies to relay their messages during a crisis, and a good relationship with customers and shareholders increases the credibility of those messages (Horsley & Barker 2002). Companies that constantly cultivate a positive image are, according to Mersham and Skinner (2002), better able to withstand a crisis because they are already perceived as being honest and candid in their communication efforts. Sturges (1994) argues that one of the key objectives in crisis management and crisis communication is damage control, but acknowledges that planning only for damage control results in activities that may be too late to secure positive relationships important to the organisation. The real work of influencing relationships should be conducted well before a crisis arises (Horsley & Barker 2002; Sturges 1994). Some organisations invest considerable resources in advocacy or institutional advertising and community welfare programs with the objective of creating positive opinions about the organisation in the minds of the public before a crisis

event occurs (Ruiters 1999; Skinner 1995; Sturges 1994). Horsley and Barker's (2002) stage one reflects and organises much of what has been discussed in section 2.3.7 around symmetrical communication.

Stage two - planning: identification of and preparation for potential crises

The literature (refer to chapter two) stresses the importance of having an effective crisis communication plan in place well before a crisis even occurs (Bloom et al 2002; Gonzalez-Herrero 1994; Horsley & Barker 2002) (refer to section 2.3.7). Planning is the bedrock of crisis management (Gonzalez-Herrero 1994). In this process, good communicators identify potential threats or risks to the organisation (Mersham & Skinner 2002), their possible impacts and prepare for them. "What if" scenarios might be likened, in geopolitical terms to war-games (refer to section 2.3.7). A coherent approach to planning for a crisis begins with the identification of potential crises, including issues that may turn critical, crises that have beset the organisation in the past and may recur, and crises that are known to have affected comparable organisations (Fearn-Banks 2002; Regester & Larkin 1997). All crises, or worst-case scenarios cannot possibly be predicted, but good plans that have top management support (Fearn-Banks 2002; Seitel 2001) can be used as a flexible framework to make informed decisions. This stage of Horsley and Barker's (2002) model is very similar to the early planning stages described by Fink (1986) and Mitroff (1988).

Stage three - planning: Internal training and rehearsal

A written crisis communication plan in conjunction with preparation actions such as media training and mock crisis drills ensures that all members of a crisis team know their roles and are prepared to handle their allocated tasks (Horsley & Barker 2002). Training of spokespeople to deal with journalists is critical in this stage because when the crisis spills over into the public eye, the organisation spokesperson will have to face the media and give an opinion on the crisis (refer to section 2.3.7.1). It is important that the spokesperson knows exactly what the journalists seek, and will need to know how to answer both aggressive and friendly queries from the media (Bloom 2001). The importance of selecting the right spokesperson for the job has been discussed in section 2.3.6.2. Once again this stage can be likened to the early planning stages described by Fink (1986) and Mitroff (1988).

Stage four – crisis response: The crisis event

The crisis response stage which has been selected as the focus of this study is entered into when all avoidance efforts fail and events trigger a crisis (Hale et al 2005). This is the stage that involves the immediate minutes, hours, days or weeks after the crisis and is characterised by short decision time, complexity and ambiguity (Hale et al 2005; Pearson & Claire 1998). Quality decisions are the result of quality information (Coombs 1999) and it is thus important that the crisis team receive up-to-date information about the crisis from reliable sources. According to Hale et al (2005), it is dangerously common to receive incorrect, incomplete and inconsistent data during crisis response.

The importance of the manner in which an organisation reacts and communicates at this stage has been discussed in chapter two. As succinctly expressed by Calloway and Keen (1996) how quickly and effectively an organisation responds often affects its reputation, credibility, integrity of operations and market performance. Most organisations depend on crisis teams for decision-making during a crisis and it is necessary for these teams to be supported by appropriate information and communications technology (Calloway & Keen 1996). After a crisis occurs, prompt, open and concerted two-way communication, firstly to staff, and then externally to the media, prevents rumours and speculation. As advocated by Fearn-Banks (2002) (refer also to section 2.3) using the media to diffuse information is a key element in maintaining good public relations (Fearn-Banks 2002). Silence in the midst of a crisis implies guilt, whether justified or not, and reporters face deadlines hour by hour (Gonzalez-Herrero 1994). Resolving the crisis in an ethical and compassionate manner is crucial (Horsley & Barker 2002). Media attention is prevalent at this stage and crisis response communication involves making decisions regarding whether and what amount of information to share (refer to section 2.3.5).

Stage five – recovery: evaluation and revision of public relations efforts

Over time, the risk of additional direct damage subsides and organisations enter the final stage of the crisis management process, namely recovery (Hale et al 2005). Recovery involves attempts to learn in hindsight from the event internally and managing public perceptions externally (Horsley & Barker 2002).

An organisation's leaders need to demonstrate that they have recovered from the crisis, have made changes to prevent it from re-occurring, and are prepared to deal with future potential crises (Horsley & Barker 2002). It could be argued that these actions should be taken during the crisis and not after it, in order to influence public sentiment and to resolve the crisis at the critical time. An organisation can create additional media opportunities by providing follow-up stories and progress reports and thus handle negative situations in a positive way (Horsley & Barker 2002).

Like Fink (1986) and Mitroff (1988), Horsley and Barker (2002) do not place much emphasis on the crisis event or crisis response stage other than to describe it. Crisis management literature (also refer to chapter two) recognises the need to approach each of the crisis stages with a focus to meeting the different management needs and challenges represented by different dynamics and dimensions in each stage (Sturges 1994). But communication during the crisis situation remains relegated to generalities about accuracy and timeliness, without regard to meeting the audience's psychological needs during the passage of a crisis (Sturges 1994). The steps leading up to the crisis and after the crisis in the recovery stage are given more emphasis. The next model to be discussed addresses this gap by including a description of the communication decision-making process involved in the crisis response stage during the actual crisis.

3.3.3 Hale, Dulek and Hale's linear crisis response model: 2005

Hale et al (2005) propose a process-oriented approach to crisis management. Their linear crisis response communication model suggests that crisis response communication actions follow a pattern of five sequential but interdependent steps (Hale et al 2005:119) as shown below:

Triggering event→Observation→Interpretation→Choice→Dissemination

Figure 3.3 Hale et al's linear crisis response model

Following a crisis, fast and accurate information about the crisis is gathered (observation). The next step involves assigning meaning to the data by assessing its accuracy and relevance. The members of the crisis management team discuss the viability of action alternatives and choose which actions to implement. Faced with limited resources, ambiguity, time pressures and stress, the crisis team has to understand the current crisis situation, acknowledge that various actions will prevent or reduce crisis damage and arrive at a decision. Once an action is decided upon, the next step of dissemination involves informing those responsible for implementing the decisions. This step also involves exchanging information with the public through the media. The former action involves operational directives, whereas the latter action often influences subsequent events within the crisis and frequently defines the organisation for years to come. It is thus a critical action and is also the focus of the proposed model in chapter six.

The value of this model is that it focuses solely on the crisis response stage of crisis management, which is absent from the stage models discussed previously. It thus provides valuable insight into the processes involved which contributes to the model developed as part of this thesis. However, Hale et al's (2005) model, by suggesting that a linear, orderly process is followed in order to make decisions concerning a course of action to be communicated, does not adequately describe the rapidly changing crisis environment. In this, Hale et al's model tends towards idealism, rather than realism. Hale et al's (2005) model also implies one-way persuasive communications from top management to staff and the media. These limitations will be addressed by Hale et al's (2005) second model, entitled the spiral crisis response communication model that will be examined in the section describing the more systemic approaches to crisis management and crisis communication. While describing the process involved in making communication decisions during a crisis, this model does not focus on the content of these decisions. This anomaly will be addressed by the model in chapter six.

3.3.4 Critical analysis of more traditional views of crisis management and crisis communication

Although valuable in providing some structure to the process of public relations or corporate communications before, during and after a crisis, the models presented provide what can be described as a traditional, linear view of crisis management. These models suggest that effective management of a crisis can only occur if all the structures are in place such as a crisis plan and an orderly

progression of steps. The crisis plan ensures effective communication occurs with stakeholders, including the media, while the organisation supposedly carries on functioning as normal. Once the crisis is over, the organisation must communicate with a view to restoring its image and adopt a business as usual attitude to ensure that the organisation's reputation is rebuilt to its status before the crisis. The crisis plan is evaluated and necessary changes are made in anticipation of the next crisis. If the crisis team is effective, according to these approaches, it minimises the chance that a crisis can occur and that if it does, it is quickly and efficiently managed. While these approaches to crisis management may be effective in linear systems where a crisis can be controlled and predicted, they may not be appropriate in complex, dynamic systems (Bloom et al 2002), which is often how crisis situations are described. These approaches also assume asymmetrical views of communication rather than symmetrical two-way communications, the preference of current public relations scholars such as Grunig (2000). By not focussing enough on the actual content of crisis communications, these models cannot assume that the recovery stage will necessarily follow the crisis. Through poor communication during the crisis it can be said that an organisation may face another crisis within a crisis or may never permanently recover from the crisis or from negative perceptions about its handling thereof. The models leaning towards the traditional linear approach characteristically give crises negative connotations – as events that have to be controlled in order to return the organisation to its former status quo. Unlike the more progressive systems approaches to be discussed next, the traditional models do not see the possibility for growth and improvement in the reputations of their organisations through effective crisis management. The section on

chaos theory (refer to section 3.4.2) is also, in essence, a criticism of this traditional view of crisis management reflected in the models discussed. Nevertheless, it can be said that the traditional models provide a useful framework for understanding the much of the literature on crisis communication discussed in chapter two.

3.4 Models leaning towards the progressive open systems continuum of crisis management and crisis communication

The approaches discussed in this section move away from the traditional, linear approaches discussed towards a progressive systems approach.

3.4.1 The spiral crisis response communication model

Hale et al (2005:120) acknowledge that their linear model discussed earlier, failed to illustrate the complexities of the communication process during the crisis response stage and thus adapted it into the spiral crisis response communication model.

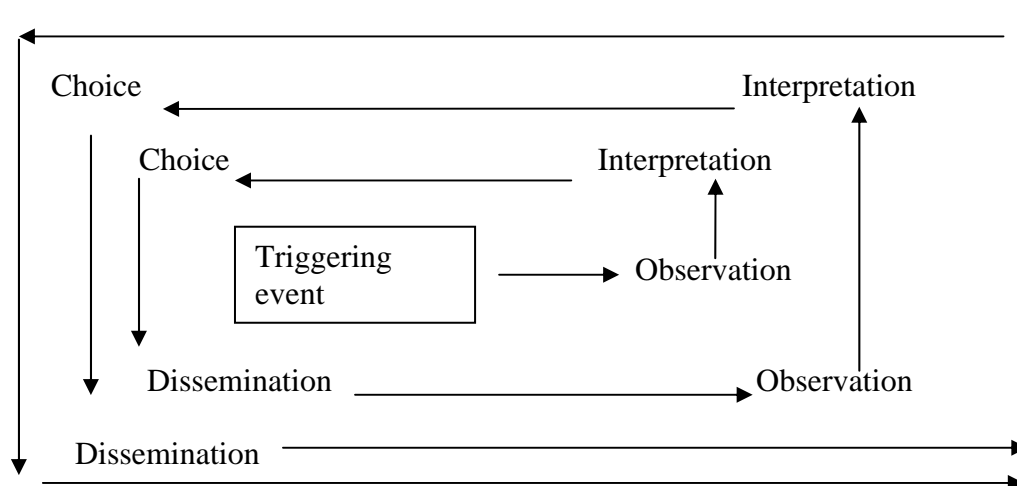


Figure 3.4 Spiral crisis response communication model (Hale, Dulek & Hale 2005:123)

The spiral crisis response communication model illustrates more accurately how in reality, as additional information and data is obtained and greater understanding is achieved of the crisis, the members of the team repeat the decision-making process during a crisis. Each new observation step involves the assignment of new values or interpretations of the information about the crisis. If during the choice step a decision cannot be made due to ambiguity, missing or conflicting information, the interpretation step is evoked. Participants in Hale et al's (2005) research describe rapid, judgement based evaluations and acceptance or rejection of distinct, non-competing solutions. This is arguably a more realistic description of how decisions are made in reality during the pressure of a crisis, rather than the careful analysis and comparison of competing solutions suggested by the linear model discussed earlier.

Hale et al (2005:123) also note that although the steps are discussed as separate and distinct, they will overlap (a single conversation being used to

gather and disseminate information, and to add insight to a proposed action) and will be conducted in parallel (people assigned to data gathering, dissemination and choice roles working next to each other). This clearly distinguishes the spiral crisis response communication model from the linear step-by-step version described in section 3.3.3.

It can be argued that the spiral crisis response communication model provides an accurate description of the rapid iteration through the decision-making steps needed to keep pace with a rapidly changing crisis environment (Hale et al 2005). It suggests an open systems approach to communication allowing for the inflow and digestion of information and feedback from the environment into the decision making process. The communication is thus symmetrical rather than one way or asymmetrical, an important consideration for scholars such as Grunig (2000) and Woodward (2000). Refer to chapter two for further discussions on symmetrical communication. The spiral crisis response communication model does not however address the actual communication decisions to be taken by the crisis team during the crisis. Rather, it focuses on describing the process involved. These gaps will be addressed by the proposed model discussed in chapter six.

Another less linear approach to crisis communication is offered by chaos theory which is also premised on an open systems approach reflected in the spiral crisis communication model.

3.4.2 Chaos theory

Murphy (1996:103) suggests that chaos theory is particularly useful for understanding a crisis because its dynamic resembles that of a chaotic system as it moves through increasingly complex stages towards a disordered state. Murphy (1996:105) describes a crisis as a sequence of events, which, over time, appear to gather volume and complexity with increasing speed. Seital's (2001) description of a typical description of an organisation in crisis in section 2.2.4 elaborates on Murphy's (1996) description.

As a derivative of systems theory, chaos theory attempts to understand and describe the behaviour of non-linear, unpredictable systems. A basic concern in chaos theory is how nonlinear systems change over time. Therefore Bechtold (1997:13) maintains that it seems an appropriate model to inform crisis communication strategy development in today's dynamic and ever-changing business environment.

Murphy (1996) argues further that chaos theory defies a planned approach to public relations because a key assumption of chaos theory is that crises have a life and logic of their own which leaves little room for intervention (Murphy 1996:108). McDaniel (1997:25) concurs that a fundamental insight from chaos theory is that the unfolding of the world over time is unknowable. This assumption contradicts the basis of much of the crisis management literature on planning and prediction of crises (refer to models leaning towards the traditional approach in section 3.3).

However, according to Bechtold (1997), by encouraging an open flow of information between the organisation and the outside environment, the organisation can stay connected to its simultaneously evolving environment and is better able to handle changes or issues that may in time lead to a crisis. While it is not possible to plan, forecast or control a crisis, it is, according to chaos theory, possible to monitor small changes, interpret their context and determine reactions in the short term (Bloom et al 2002). This is the key to successful crisis management from the perspective of chaos theory. The organisation must rely on constant feedback to ensure that it adjusts to even minor environmental demands and changes (Bloom et al 2002).

Chaos theory is particularly relevant to public opinion – the understanding of how issues emerge and how individuals and groups are transformed from states of inactivity to activism using the media as an ally (Bloom et al 2002). Because chaos theory suggests that crisis communicators remain alert to small changes outside the organisation, they can capture changes in public opinion and deal with issues before they escalate into crises (refer also to section 2.3.7 for a discussion on issues management). In the longer term, organisations should seek to identify any similarities or irregularities in elements of patterns of change, and determine from these, acceptable courses of action (Edgar & Nisbet 1996:7). According Bloom et al (2002:31): *The organisation would tap the information and intelligence of all its members, connect itself with the evolving environment and draw that information into its self-generation.* In this way, crises can be seen as opportunities for change and beneficial restructuring of the organisation.

A key principal of chaos theory is that monitoring change and interpreting its context may be more realistic public relations goals in complex, dynamic systems than prediction and control suggested by traditional crisis management systems (Murphy 1996). According to a study led by Bloom et al (2002), Swiss banks in general were criticised for the way they handled money invested by Jews during World War II. These banks did not manage their crisis effectively, as they did not remain alert to the environment. By ignoring the court of public opinion and placing strict control on communication flowing into or out of the organisation, the problems they faced became magnified and resulted in extremely bad media coverage and an enormous drop in share price and profits for the banks. The decision to restrict communication was an effort to contain the uncertainty resulting from the crisis, typically an action of a traditional organisation (Bloom et al 2002). In organisations that understand the dynamics of chaos, the crisis communicator's role should be to establish communication channels that encourage dialogue, diversity of ideas and participative decision-making. By not remaining connected to the external environment the Swiss banks were unable to monitor changes and seize the opportunities to respond in an innovative manner. This implies that the Swiss banks were unprepared to identify emerging issues, much less capitalise on the business or communication opportunities that may have been present. They chose instead to practically ignore the media, which proved to their detriment. Bloom et al (2002:40) conclude that the Swiss banks' inefficiency in managing the crisis stemmed not from the crisis event itself but from their rigid corporate structures and processes. This example demonstrates the influence of an organisation's values on its style of crisis management.

3.4.2.1 Summary: key points of crisis management/crisis communication suggested by chaos theory

The value of chaos theory is in its description of the field of crisis management and crisis communication which is interpreted as follows:

- Gayeski and Majka (1996:5) suggest that the crisis communicator's role is to establish communication channels that facilitate dialogue, diversity of ideas and participative decision-making. The issuing of advice in one direction, is, according to Grunig (2000), doomed to fail. Practicing symmetrical communication helps organisations adjust their own behaviour and communications in order to accommodate the beliefs and concerns of their publics throughout the crisis (Bloom et al 2002). This is in sharp contrast to the more traditional approaches to crisis communication followed by organisations that seek only to predict and control their environments rather than adapt to them.
- Open lines of communication between members of the organisation and between the organisation and the public and journalists are of marked importance throughout the process of prevention, according to chaos theory (Comfort 1994; Bechtold 1997). The idea is that the responsibility for crisis management should not only rest on the shoulders of the crisis team. The entire organisational structure, from the customer care department through to the client-facing staff should be on the alert for possible issues that might, if not addressed, escalate into crises.

- Support for the plan and the whole process of crisis management must come from top management throughout the organisation to ensure its application (Bloom et al 2002).
- Chaos theory warns that over-reliance on a plan or an analysis of past events should be minimised and that the focus should be on building an innovative, creative and spontaneous approach to strategy (Bloom et al 2002). This contrasts with the more traditional views of crisis management mentioned, in which adherence to a crisis plan or manual, prepared in advance of a crisis is paramount.
- Chaos theory posits that continuous tracking with a view to identifying changes through constant feedback, to ensure that the organisation adjusts to environmental and organisational demands, is critical (Comfort 1994). This cybernetic approach to management can provide an early warning system for crises (Bloom et al 2002). Analysing media coverage on a day-to-day basis can help the organisation to anticipate and tackle potential problems before they arise (Bloom et al 2000).

3.4.2.2 *Critical analysis of chaos theory*

Chaos theory provides a substantially useful alternative framework for viewing crises to the more traditional approaches of crisis communication management prevalent in the literature. It acknowledges that it is not always possible to plan

for a crisis and that it may be more useful to devise strategy based on information received at the time. This may also help avoid the development of an issue into a crisis. Murphy (1996:108) also contends that the value of public relations may come less from attempts to influence audience's perceptions in a planned direction than from the ability to capitalise on unplanned opportunities. This sheds a new light on the field of crisis management and crisis communication – one that appears to be missing from the linear approaches discussed in section 3.3.

The approach is unique in that it entrusts everyone in the organisation with a responsibility for crisis management, instead of only a core team of crisis communicators. Staff members on every level are encouraged to share information through open communication channels and to be alert to possible changes in the environment. In theory, this could be constructive for the organisation in terms of monitoring and adapting to situations. However, it may not be practical and many organisations appear to apportion responsibility for crisis communication to a small team of specialists.

In addition to an image restoration strategy, chaos theory postulates that effective crisis management requires a business mindset and strategy that can take advantage of the prospects that occur as a result of the crisis (Seitel 2001). This suggests that senior executives would need to form part of the crisis management team as crisis management decisions could impact on the various operations of the organisational system. In this regard, chaos theory

underscores the influence that crisis management decisions can have on the organisation.

Chaos theory's reframing of a crisis as a positive opportunity for restructuring is also uniquely opposed to the more traditional view of crises as negative events that need to be managed quickly so that the organisation can return to its former state of equilibrium. The results of the research conducted for this study demonstrate that most of the organisations examined in the case studies indeed experienced positive changes as a result of their crises (refer to chapter five for further details). They appeared to learn from their crises and made fundamental changes to the way in which they view relationships with the media and their clients.

Because of the benefits of chaos theory some of its elements will be used as a framework for analysing the responses of the crisis communicators in this study. Its value appears to lie in analysing a crisis after it happens, rather than in advising crisis communicators on the course of action during the crisis. While it may describe the role of crisis communicators operating on the edge of chaos, what appears to be missing from chaos theory is guidance on what communicators should say to the media about the crisis – the content of crisis response.

The aforementioned models and theories discussed are helpful in building a body of knowledge to further the understanding of crisis management and crisis communication with the media. They are also helpful in providing a structure or framework for understanding and describing the principals drawn from crisis

communication literature discussed in chapter two. While the majority of them acknowledge the importance of communication decisions made during a crisis, they omit to examine these decisions and responses. The forthcoming model, which can also be described as being predicated on systems epistemology, addresses these responses and is thus the approach which will be adapted for the model designed from this research. Attempts will be made to address the limitations in the proposed model discussed in chapter six.

3.4.3 Situational crisis communication theory (SCCT or SCC theory)

In summary, the area of crisis management devoted to what organisations say (and their actions) to publics or the media after a crisis occurs is termed crisis-response or crisis communication strategies (Coombs 1995; Goodman & Markus 1991; Ice 1991). Communication to the media at this stage shapes public perceptions of a crisis and the organisation involved in the crisis (Russ 1991). The literature predominantly argues against stonewalling when accused of a wrongdoing (Bradford & Garrett 1995; Coombs 1995; Hearit 1994). Hearit (1994:115) argues that *the speech of self defence or apologia presents a compelling counter description to situate alleged wrongdoing in a more favourable context*. This is a valuable line of research because crisis-response strategies are an important resource for crisis managers (Coombs 2004).

As already discussed, the crisis response stage is characterised by high consequence and short decision time that creates a unique and threatening decision-making environment that must be conscientiously supported (Hale et al

2005). During this stage, events occur quickly, and critical, stressful, decision-making takes place (Hale et al 2005). In the definition of a crisis (refer to section 2.2.1), it was acknowledged that each crisis contains degrees of both success and failure and that the actions of the organisation significantly affect the relative number of these successes and failures.

The purpose of this section is to examine the latest thinking in this dynamic area of research under the rubric of situational crisis communication theory (SCCT). This perspective has also been dubbed the symbolic approach (Coombs 1999), because it describes how communication can be used as a symbolic resource to protect an organisation's image. In other words, from this perspective, crisis communication strategies are viewed as the symbolic resources with which crisis managers help protect or repair the organisation's image.

The roots of the symbolic approach are found in the rhetorical concept of apologia. Apologia examines how individuals use communication to defend their character (image) from public attacks (Coombs 1999). The SCCT model links crisis response strategies to crisis types and according to Englehardt, Sallot and Springston (2004:128): *Coombs' repertoire seems to promise the greatest utility for practitioners facing crises in the field.*

3.4.3.1 Theoretical Foundation of SCCT

The foundation of this theory rests on the assumption that an organisation's reputation or image is a valued resource that can potentially be threatened by a

crisis (Barton 2001). The reputation or image of the organisation is described as the perception that the public has of the organisation (Barton 2001) and which affects its organisational legitimacy (refer to section 2.2.6) or sanction to operate.

SCCT postulates that the image of an organisation or its organisational legitimacy can best be protected by crisis communicators if they assess the crisis situation, (which is conceptualised as the frame used by the public to interpret the event), and then select a crisis response strategy that fits the crisis situation. The crisis strategy chosen, should, according to the theory (Coombs & Holladay 1996:283), have the following effects:

- Convince stakeholders there is no crisis or
- Have stakeholders see the crisis as less negative and/or
- Have stakeholders see the organisation more positively

The crisis situation is, according to SCCT, most effectively evaluated according to attribution theory, which is derived from interpersonal communication research (Benoit 1995a; Cupach & Metts 1990 & 1989; Sharkey & Stafford 1990). Attribution theory posits that people will make judgements about the causes of events, especially unexpected events with negative outcomes such as a crisis (Coombs 1995). Attributions are *perceptions of the causality or the perceived reasons for a particular event's occurrence* (Weiner 1985: 280).

The public will ask themselves whether the crisis was something the organisation could control or prevent (Coombs 2004). Control implies

responsibility (Weiner 1995). If the public assume that an organisation could control a crisis, they will pass the responsibility for the crisis onto the organisation (Coombs 1995). When a crisis event is repeated (stable), the public is more likely to attribute responsibility to the organisation (Coombs 1995). The messages people develop to explain an event can shape attributions, which in turn shape feelings (Weiner 1995). Greater attributions of responsibility lead to stronger feelings of anger and more negative views of organisations (Coombs 1995). Crisis attributions are therefore important because they mould feelings and behaviours toward the organisation involved in the crisis (Coombs 2004).

3.4.3.2 *Identification of crisis clusters/crisis types*

Using crisis responsibility to form crisis clusters, that is, groupings of similar crisis types, has further refined thinking about crisis types (Coombs 2004). The development of crisis clusters is based on the premise that similar crises can be managed in similar fashions (Coombs 2004). Because crisis types within each crisis cluster will produce similar attributions of crisis responsibility, crisis managers can use similar crisis response strategies to deal with crisis types within the same cluster (Coombs 2004). Thirteen crisis types have been categorised into three distinct clusters (Coombs 2004):

- victim
- accidental
- preventable (Coombs 1999) or intentional crisis cluster (Coombs 2004).

The **victim cluster** involves crisis types in which the organisation is an innocent party but harm is inflicted on it and its stakeholders (Coombs 1995). Examples of this type of crisis could be a natural disaster, workplace violence, acts of terrorism or damaging rumours about an organisation (Coombs 1995). The **accidental cluster** involves unintentional actions by an organisation such as a technical failure or misdeeds attributed to a staff member (Coombs 1995). It is assumed that the organisation could do little to prevent the crisis and did not intend for it to happen (Coombs 2004). However, research shows a general bias towards internal causes for accidents (Coombs 2004). The **preventable cluster** involves intentionally placing stakeholders at risk, knowingly violating laws or regulations, or not doing enough to prevent an accident or a defective product from reaching the market (Coombs 1995).

According to the theory the stronger the potential damage to the organisation's reputation, the more the crisis response strategy must try to accommodate those adversely affected (Coombs 2004). Publics will expect an organisation to do more for victims of a crisis when the organisation is held more accountable for that crisis (Coombs 1995). The crisis response strategies should then mitigate damage to its reputation by showing that the organisation is concerned for the victims and is willing to make amends for its questionable behaviour, thereby accommodating the public's expectations (Coombs 2004). A full apology and publicly accepting responsibility escalates costs because the organisation will be found liable (Coombs 2004; Tyler 1997). Thus a crisis manager would use more expensive crisis response strategies in a human error accident than in a technical error accident (Coombs & Holladay 2006).

Scholars such as Benoit (1995a) frequently recommend highly accommodative/mortification strategies that feature apologies for the crisis. However, the universal application of highly accommodative strategies is problematic because of the legal and financial liabilities incurred (Coombs 1999). Apologies require an organisation to publicly accept responsibility for a crisis, thereby weakening its legal position in the case of a lawsuit (Fitzpatrick 1995; Tyler 1997). However, current business thinking maintains that financial interests should not be the only deciding factors in all crisis situations (Naidoo 2002). Refer to section 2.3.5 for further discussion on these issues.

Crises that prompt little to no attributions of organisational crisis responsibility, such as natural disasters, or rumours, can be managed using just instructive information - telling people what to do to protect themselves from the crisis, as the crisis response (Coombs 2004). In the case of an act of terrorism, the organisation can be portrayed as a victim and the public might even feel sympathy for it (Coombs 2004). Sympathy from the public can help build a more positive view of the organisation (Benoit 1997). In the event of false rumours, crisis managers are recommended to add the denial crisis response strategy which is the most defensive strategy (Coombs 1995). But the crisis manager should have some concrete evidence to show that there is no crisis or that the rumours are unfounded before applying this response (Newsom, Scott & Turk 1992).

Crises that prompt moderate to low attributions of crisis responsibility, such as accidents, are effectively managed via moderately defensive crisis response

strategies such as excuse (Coombs 1999). The crisis manager might try to emphasise the organisation's lack of responsibility for the crisis or the minimal damage created by a crisis (Allen & Caillouet 1994; Benoit 1995). In both instances, the crisis manager attempts to place distance between the organisation and responsibility for the crisis event. For this strategy to be effective there must however be some aspect of the crisis responsibility that indicates that there is limited responsibility or minimal damage (Coombs & Holladay 2006). Distance accepts the crisis but tries to weaken the association between the organisation and the crisis (Coombs & Holladay 2006).

Crises with strong attributions of organisational responsibility, such as organisational misdemeanours, require strongly accommodative responses such as corrective action and full apologies (Coombs & Holladay 1996). This step might also involve creating new practices to prevent a crisis event from being repeated (Glascock 2004). This remedial action (also termed rectification by Coombs 1995) helps to re-establish legitimacy by demonstrating organisational concern for societal norms (Allen & Caillouet 1994). Coombs and Holladay (2006) advise crisis managers to take the remedial/accommodative route when the organisation cannot distance itself from the crisis.

Identifying the crisis type enables an initial assessment of the amount of crisis responsibility that publics will attribute to a crisis situation. Adjustments are then made to this initial assessment by considering two factors – severity and performance history (Coombs 2004). *Severity* is the amount of damage created

by a crisis in terms of factors such as financial, human and environmental damage (Coombs 1999). **Performance history** refers to the past actions or conduct of an organisation, including previous crises, and **relationship history** especially how well or poorly it has treated stakeholders – that is the media, its clients, shareholders, the government and community in which it operates. (Coombs 2004). **Performance history** and **relationship history** can also be described as **prior reputation** which is, according to Coombs and Holladay (2006:124) *the balance of reputation capital an organisation has in its account* prior to a crisis.

Relationship and performance history (prior reputation) affects how the public interpret current events (Coombs & Holladay 2006). The crisis is therefore not seen in isolation and **prior reputation** adds to an understanding of the crisis situation dynamic (Coombs & Holladay 2006). As severity increases or performance history worsens, publics will attribute greater crisis responsibility to the organisation and may discount the organisation's interpretation of the crisis. In contrast, favourable pre-crisis relationships can serve as buffers for accused organisations and can thus be a valuable asset to crisis management (Huang 2005:6). According to Coombs and Holladay (2006:124), prior reputation helps to protect and repair an organisation's image during a crisis. A crisis may cause an organisation to experience some loss of reputation. It is possible that a prior reputation can offer more than just a large reserve of goodwill from which to withdraw during a crisis. According to researchers such as Fombrun and Van Riel (2003) a favourable reputation may actually create a halo effect, which might change how much crisis responsibility

the public attributes to an organisation in crisis. Coombs and Holladay (2006:125) go so far as saying that organisations might be afforded the benefit of the doubt and not be assigned as much crisis responsibility, as would be attributed to an organisation with an unknown or unfavourable reputation. The halo as shield explanation is part of a larger psychological phenomenon of expectancy confirmation. Research suggests people are reluctant to revise initial expectations even when confronted with clear disconfirming evidence (Frey, Greitemeyer, Schulz-Hardt & Traut-Mattausch 2004). For favourable reputations, the public or media may ignore or dismiss the recent negative information created by the crisis and continue to support the organisation (Coombs & Holladay 2006:125). However, what should be noted is that a favourable reputation does not protect an organisation if it uses an inappropriate response (Dean 2004).

In summary, the assessment of a crisis is a two-step process. In the first step, the crisis team identifies the crisis type (Coombs 2004). After assessing the level of crisis responsibility, crisis managers then choose a crisis response strategy appropriate to the level of crisis responsibility, taking into account contexts such as relationship history, prior reputation and severity of damage (Coombs 2004). For example, repeated or severe technical breakdown accidents should be treated more like the preventable cluster than the accident cluster (Coombs 1999). If a crisis keeps happening, the public likely think it could be avoided (Coombs & Holladay 2006). An example of this could be the regularity of global mine disasters. For the purposes of clarity, a table summarising a list of SCCT response strategies appears in the next section.

3.4.3.3 SCCT crisis response strategies

A detailed explanation of the table is provided below.

Table 3.4: SCCT Crisis response strategies and tactics to match crisis clusters

Crisis clusters	Strategies	Tactics
Victim	Non-existent Suffering	Denial, clarification, attack, intimidation
Accidental	Distance	Excuse (e.g. scapegoating), justification
Culprit	Mortification	Remediation, repentance, rectification
All	Ingratiation	Transcendence, bolstering, praising others

As indicated in the above table, Coombs (1995:453) propose the following list of crisis-response strategies which crisis managers can apply in making decisions when communicating to the media. Examples pertinent to the financial services industry have been included.

- **Non-existence strategies**

These strategies seek to eliminate the crisis. If no crisis exists there is no reason for the organisation to be tarnished by the supposed crisis. This strategy can be used as a response to rumours that are evidently false and consists of four tactical options, namely: **denial** (a simple statement that nothing happened), **clarification** (extends the denial strategy with proof of why there is no crisis), **attack** (confronts those who wrongly report that a crisis exists) caution and **intimidation** (use of

lawsuits against those who are spreading the rumours). According to Hearit (2001) an attack strategy is deemed highly risky because it portrays the organisation as aggressive. This strategy should therefore be used with caution.

Companies or even powerful individuals have frequently used both the attack and intimidation strategies even at times when they have been at fault. For example, executives from the now defunct multi-national giant, Enron, initially denied that they had been involved in unlawful actions. Hearit (2001:509) states that an organisation might have an *initial impulse to start with a strategy of denial and to try other approaches only once it is clear that denial no longer works for an organisation*. However crisis managers may need to take into account that protestations of innocence may be treated with scepticism by a wary media.

- **Distance Strategies**

These strategies acknowledge the crisis and act to create public acceptance of the crisis, while weakening the link between the crisis and the organisation. If the link is weak, the negatives attached to the crisis will have a reduced chance of tarnishing the organisation's image. Distance strategies comprise tactics such as **excuse**, which tries to minimise the organisations' responsibility. Excuse tactics include denial of intention and denial of volition. **Scapegoating** is an example. An organisation cannot control an event if some third party is responsible for the crisis or has acted without organisational sanction (Ihlen 2002).

However, one could question the efficacy of shifting blame and it is suggested that this strategy should, in general, be avoided. Arguably these tactics do depend on the context of mediation and are influenced by the validity of charges, the existence of a scapegoat and the degree of guilt (Ihlen 2002:189).

Justification seeks to minimise damage associated with the crisis and includes denying the seriousness of the crisis or claiming that the crisis event has been misrepresented. The aim is to reduce the offensiveness of the act and to persuade the public that the act or crisis is not as bad as it might seem (Glascock 2004:37). Benoit (1995a), having researched interpersonal communication, asserts that a major goal of crisis communication discourse is to save face. Therefore when an organisation's reputation is threatened, the natural inclination is to present a response consisting of denial, justifications or excuses for the offence (Benoit 1995a).

- **Ingratiation strategies**

These strategies seek to gain public approval for the organisation by connecting the organisation to things positively valued by the public, such as corporate social investment policies. Examples include the following: **Transcendence** as an ingratiation tactic attempts to place the crisis in a larger, more desirable context. For example, large-scale retrenchments could be justified as a necessary step for the long-term sustainability of a organisation. **Bolstering** reminds publics of the

existing positive aspects of the organisation and **praising others** is used to win approval from the target of the praise (Englehardt et al 2004). In the study conducted on Absa as part of this research (refer to chapter five) statements using ingratiating strategies employed by spokespeople after the internet hacking crisis, in order to show Absa's commitment to internet safety, included: Absa's internet banking complies with the highest standards of safety possible (Smith 2006).

- **Mortification strategies**

These strategies attempt to win forgiveness of publics. **Remediation** willingly offers some form of compensation to help the victims in the form of money, goods and aid. **Repentance** involves asking for forgiveness. **Rectification** involves taking action to prevent a recurrence of the crisis in the future. Absa (refer to chapter five) used the following statement indicative of a mortification strategy, to demonstrate that the organisation was making sure the problem did not reoccur: We have accelerated our planned roll-out of safety features (Smith 2006).

- **Suffering strategies**

These strategies are designed to win sympathy from publics. They could portray the organisation as an unfair victim of a malicious, outside entity. An example could be the argument, by banks, in defence of charges levied on deposits and withdrawals of cash, that the spate of cash heists in this country makes such charges necessary.

In many cases a combination of strategies is used, for example, apology and justification or denial may be combined (Coombs 2004). Literature further supports the effectiveness of the combined use of strategies in terms of favourable imagery coverage in the media (Huang 2005). It is possible for an organisation to use two or more strategies in one sentence (Englehardt et al 2004:130) such as: *We are very sorry about the suffering this accident has caused, but this was not the result of any negligence on our part.* In the beginning of the sentence a mortification strategy is applied, but the second half of the sentence reflects a dominant strategy of justification and/or denial. According to Englehardt et al (2004), Coombs' five categories are not discrete or mutually exclusive in complex situations such as crises.

The crisis response strategies can be ordered along a continuum ranging from defensive, putting organisational interests first, to accommodative, putting victim concerns first (Marcus & Goodman 1991; Shrivastava 1993). The defensive-accommodative continuum is adapted from the work of McLaughlin, Cody, and O'Hair (1983), which used the continuum to conceptualise accounts, or explanations/excuses people offer for their untoward or negative behaviour. Using this continuum the crisis manager then matches the crisis response to level of crisis responsibility. The greater the crisis responsibility generated by the crisis the more accommodative the crisis response strategies must be according to SCCT (Coombs 2004). Following this principle should, according to the theory, offer a defence for the organisation's reputation.

3.4.3.4 Critical comment on SCCT

The quest for simplicity, by summarising the crisis response types and crisis responses into categories, may affect the application of this theory to real life situations. It is possible that some valuable, explanatory factors and variables have been excluded (Coombs 1995).

Some of the variables excluded by SCCT include the following:

- While SCCT acknowledges that the crisis response should be tempered with consideration of the organisation's history, it does not mention other context variables that may impact on the choice of crisis response such as perceptions that the public might have of an industry as a whole. For example, in South Africa, the life insurance industry is receiving bad publicity following rulings by Pensions Funds Adjudicator Vuyani Ngalwana. The negative perception of the industry as a whole would need to be considered should a particular insurance organisation have a crisis in the media during this time. Refer also to section 2.3.5.
- Other factors such as the cultural context in which the organisation operates, could possibly also have an impact on the choice of crisis response strategy. The theory does not cater for the variance from one country to another, let alone one city to another.
- Another aspect not addressed by the theory, is that there could be a real possibility that it may be in the interests of competitors or journalists to

exaggerate the consequences of an organisation's crisis in the media. This would of course impact on public perceptions of the organisation in crisis and the attributions made. Even though these perceptions may be unjust, they could exist nevertheless and need to inform crisis response strategies.

- In addition, the morality of crisis response strategies is not addressed by SCCT. An inference could be drawn from the discussion on compassion and apologies that an organisation should not admit to anything that is going to cost them money. According to Cohen (1999:1012) *respect for others would seem to require that when an offender has hurt someone, she should apologise to the extent that she feels at fault*. However, the same author admits that lawyers may advise their client not to risk apology because of the implications of liability (Cohen 1999). According to Cohen (1999) the ideal is for crisis communicators and legal counsel to work together to develop a response that satisfies the public's need to know, yet avoids self-implication of legal wrongdoing.
- The human response is not mentioned in the theory. Horsley and Barker (2002:409) state that: *If a organisation is at fault, its spokespersons repair the organisation's reputation much faster if they apologise, accept responsibility, and show remorse*. In the same vein, if a disaster has occurred that is not necessarily the fault of the organisation, *the public and the media are still looking for some humanity; they want to see the organisation spokespersons express regret for what happened and show*

compassion for the victims (Horsley & Barker 2002:410). During the 1989 Exxon Valdez oil spill, the organisation did not even attempt to show concern over the animals that died in the oily mess and too often declined to comment. Englehardt et al (2004:150) found that Coombs' crisis response strategies do not allow for corporate statements that express concern and sympathy without placing the blame on the organisation. Englehardt et al's study (2004) demonstrates the need for an additional strategy to be added to SCCT, perhaps called *compassion without blame* (Englehardt et al 2004:151). Compassion may affect stock prices, but it avoids the liabilities associated with apologies (Fitzpatrick 1995; Marcus & Goodman 1991; Tyler 1997). Like apologies, compassion addresses public concerns by acknowledging victims' needs and in this way bolsters the organisational reputation (Barton 2001; Pearson & Mitroff 1993). The most useful way to maximise both social and legal concerns during an accident crisis could be to incorporate compassion into the crisis response.

- In addition, initial early responses when organisations are trying to find out what happened to cause the crisis, are not included in SCCT. Englehardt et al (2004:151) say that statements such as *It's too early to know if our airplane maintenance was a key factor in the crash* do not fall into Coombs' (1995) repertoire. At this stage the organisation is not denying anything, it is not making an excuse, nor is it clarifying: it merely does not have an answer (Englehardt et al 2004:151). Englehardt et al

(2004) call for a re-conceptualisation of SCCT to account for the findings of more recent research.

- SCCT does not suggest that the client or victims of a crisis be put first, which has been a hard learnt lesson by Absa demonstrated in the case studies which follow in chapter five. A number of recent studies predict a strong connection between an organisation's values and culture and its behaviour during the response stage (Hale et al 2005:116). Refer also to discussion in section 2.3.5. At the heart of the decision-making process conducted by the crisis team is an organisation's values. According to Foster and Snyder (1983), the effectiveness of the decision-making process is significantly enhanced if these organisational values are made explicit and communicated clearly to crisis decision makers. Foster and Snyder (1983) cite the Johnson and Johnson Tylenol crisis as a case in point. Seven people in Chicago died from taking Tylenol capsules laced with cyanide. News of this incident travelled quickly and was the cause of a massive, nationwide panic. These poisonings made it necessary for Johnson & Johnson to launch a public relations program immediately, in order to save the integrity of the product and the organisation as a whole.

The decision makers stated unequivocally that, when they were forced to act in the dark during the Tylenol crisis, they looked to the credo for guidance and took actions that supported the first line of the credo which states: *We believe our first responsibility is to the doctors, nurses, and patients, to mothers and all others who use our products and services*

(Foster & Snyder 1983:35). The corporate president of Johnson and Johnson, David R Clare (Foster & Snyder 1983) noted that the events surrounding the Tylenol crisis were so atypical that they found themselves improvising every step of the way. *Crisis planning did not see us through this tragedy nearly as much as the sound business management philosophy that is embodied in our credo* (Foster & Snyder 1983: 35). Refer also to related discussion on ethics in section 2.3.3.

- The crisis response strategies of SCCT have been derived from interpersonal communication research (Benoit 1995). This may limit their applicability to the organisational world. For example, the denial of volition (the intention to do harm), as a distance strategy suggested by SCCT, may be more effective in an interpersonal setting, than as an effective explanation for an organisation that has caused harm to its clients. The public may not care whether the crisis was intentional or not, particularly in the case of large wealthy organisations.
- The ingratiation strategy of bolstering discussed in section 3.4.3.3 which entails emphasising the positive aspects of the organisation may appear to be in bad taste during a crisis. One could ask whether the organisation should be trying to garner support when it is dealing with a crisis where the public's primary concern is the impact of the crisis.
- In a similar vein, the justification strategy of seeking to minimise the damage associated with the crisis, would need to be skilfully managed so

as not to appear callous of the injury or damage done to the parties concerned. According to Horsley and Barker (2002) attempts to blame the incident on some other entity or to take the pressure off the organisation, through suggested strategies such as justification or excuse, can backfire and hinder further public relations. Huang (2005:32) warns that the excuse response could be associated with manipulation and controlling and could ruin relationships between the organisation and the public.

- Hearit (2001:509) criticises approaches to public relations messages during crises such as SCCT because they often treat *the responses of organisations as static and linear when in reality they are dynamic and variable*. According to Ihlen (2002:185), while focusing on choosing crisis-response strategies, *the study of combining, and especially changing, strategies is left unexplored*. For example, media coverage could force an organisation to change its response strategy (Ihlen 2002), as in the case of Absa during its internet “hacking” crisis (refer to chapter five). Benson (1988) and Ihlen (2002:191) suggest that tentative language and ambiguity in the first stages of a crisis can help an organisation to be flexible in its responses in the later stages.
- Two issues are, according to Coombs and Holladay (2006:135) worth further consideration. *Does a favourable prior reputation create expectations about how an organisation should respond? Will “good” organisations be expected to exceed the normal response?* It may be

that if a prior reputation is favourable an organisation will need to use the most expensive response regardless of the crisis situation. No evidence as yet supports this conclusion.

- In spite of the shift in communications and public relations towards a more symmetrical way of communicating and more socially responsible actions and interactions; it seems that at the heart of crisis communications dialogue and certainly at the core of a theory such as SCCT, is persuasion or influence (refer to 2.3.3 and 2.3.4). The organisation wishes the public not to judge it too harshly and therefore designs messages using techniques such as bolstering, scapegoating, minimisation and so on to persuade the public or the media to view it in a better light.

3.5 Conclusion

This chapter critically reviewed the existing literature on crisis management and crisis communication theories and models, ranging from the more traditional approaches to those based on open systems approaches. The traditional approaches generally view crises as signs of trouble, while the progressive systems approaches such as chaos theory view crises as opportunities for change and improvement to the organisation. While traditional organisations seek to predict and control their environments, progressive organisations choose to adapt to them.

A valuable recommendation from the models reviewed, particularly the more traditional models, is that an organisation should remain alert to signals and address issues before they become serious crises. Although prior planning in advance of a crisis is acknowledged as important, flexibility in approach during a crisis, rather than strict adherence to the plan is advised by progressive theories.

While the discussed approaches acknowledge the importance of communication decisions made during a crisis, none of them (with the exception of the SCCT theory) actually examine these decisions or responses to investigate how messages can be communicated to the media to shape public perceptions of an organisation. The shortcomings of SCCT were examined which will be addressed in the proposed model in chapter six. These include the lack of acknowledgement for flexibility in crisis response and issues such as the absence of a strategy to reflect compassion without incurring blame. The applicability of some of the tactics suggested by SCCT, such as bolstering and justification were questioned in this chapter.

The results of the research, which follow in chapter five will be combined with the relevant elements of SCCT and other supporting literature and applied to the conceptual model of crisis communication discussed in chapter six.

CHAPTER 4

RESEARCH APPROACH AND METHODOLOGY

4.1 Introduction

The previous two chapters have focused on a literature review of crisis management/crisis communication principles and theories which can be used as a foundation for this research. As Neuman (2000:445) states: *A literature review is based on the assumption that knowledge accumulates and that we learn from and build on what others have done.* The knowledge gleaned from the literature review will be used to compare the findings of the case studies researched and as a basis for the conceptual model proposed in chapter six.

This chapter begins with a summary of the research goal followed by a description of the quantitative and qualitative research paradigms. The shift from modernism (from which the quantitative research paradigm is derived) – to postmodernism, the epistemology of the qualitative research paradigm, is described and the reason for choosing the qualitative research paradigm explained.

The qualitative paradigm was considered more appropriate than the quantitative paradigm because of the interpretive nature of the research (Puth & Steyn 2000). The research methodology (sampling and selection, data collection, and data analysis processes followed) will be described in detail to make sure that the research adheres to scientific principles because, *research methodology is what makes social science scientific* (Neuman 2000:63). The aim is not however to

position the reader to replicate the study exactly (Babbie & Baxter 2004). It is understood in qualitative research that a second researcher who studies the same group or setting might interpret it differently (Babbie & Baxter 2004).

4.2 Research goal

The research goal or objective provides a general idea of what the researcher wishes to achieve (Du Plooy 2001). The research goal determines the research approach and techniques or methodologies followed (Du Plooy 2001; Wimmer & Dominick 1991). To summarise, the purpose of this study is to translate the existing literature on crisis communication and crisis management principles and theories, as well as the learning obtained from case studies of crises in the South African banking environment, into a currently relevant conceptual model for organisational strategies of crisis communications with the media.

The research goal can be described as partly exploratory and partly descriptive (Babbie & Baxter 2004:30; Neuman 2000:21-23). It has a partly **exploratory** element because a large portion of the current literature on crisis communication has focused on the structural aspects of crisis response, rather than on the content (what communicators actually say). The researcher's stance is investigative and seeks to discover what kind of communication decisions are made during crises (Babbie & Baxter 2004:30; Neuman 2000:21; Puth & Steyn 2000). Babbie and Baxter (2004:31) describe this kind of questioning as inductive reasoning because it begins with a relatively *blank slate and the questions that guide the inductive process are: What is going on here? What's this all about?*

It is also partly **descriptive** because it sets out to clarify a sequence of steps and presents a picture of the specific details of crisis communication – *how* communication decisions are made during crises (Babbie & Baxter 2004:31; Neuman 2000:21; Puth & Steyn 2000). Social research such as this one can be conducted using quantitative research processes, qualitative research processes or a combination of both (Neuman 2000). Both quantitative and qualitative approaches are discussed critically and the reasons for choosing a qualitative approach for this research are summarised.

4.3 Quantitative research paradigm

Adopted from traditional scientific research, the quantitative paradigm is congruent with objectivist, positivist or modernist epistemology. The key premise of this modernist epistemology is that there is a reality out there that can be discovered through the use of empirical, scientific methods that are quantitative in nature (Babbie & Baxter 2004; Durrheim & Terre Blanche 2002). According to this view, knowledge should be an accurate representation of objective reality (Babbie & Baxter 2004; Du Plooy 2001; Stancombe & White 1998). From this perspective, research is only valid if it adheres to the rules of precise measurement, involves the manipulation of variables using an experimental design and the articulation of specific hypotheses (Puth & Steyn 2000). In an objective world, the complex nature of lived human experience is devalued in the search for universal laws that can explain and predict (Du Plooy 2001).

Modernist epistemology endorses a mechanistic worldview, which depicts the world as a complex machine and events in nature as the product of the linear transmittal of forces (Gayeski & Majika 1996). Scientists adhering to reductionist principles believe that phenomena can be studied in an atomistic way by breaking them down into discrete parts to discover their linear cause-effect relations (Angelopulo & Barker 2006; Gergen 1999). The application of these modernist principles to the study of communication lends credence to a view of people as reactive and passive organisms, determined by their environment in an almost unidirectional way (Gergen 1999). An example of this way of thinking by communicators is the traditional Hypodermic Needle Theory, which suggests that media audiences are passive and that the media inject information into users (Bloom 2001).

The American Psychological Association specifies codified guidelines for producing research articles consistent with positivist ideology and methods of research (Rogers 2000:75). Specifically these include:

- The use of an objective, third person point of view.
- Emphasis on precision, with mathematics as a model.
- Avoidance of metaphors and other expressive uses of language.
- Support of claims with experimental, empirical evidence.

Positivist researchers favour rigorous, precise measures and test hypotheses by analysing numbers (Babbie & Baxter 2004; Neuman 2000:66). The use of quantitative methods leads to the acquisition of knowledge that is a-contextual but empirically precise (Becvar & Becvar 2000; Puth & Steyn 2000). The goal is to

produce findings that can reliably be taken as “objective” fact and offers absolute certainty (Du Plooy 2001; Puth & Steyn 2000). These findings are generally in the form of causal laws with predictable outcomes (Fourie 1998; Puth & Steyn 2000). In this sense, quantitative research can be described as linear or step-by-step or cause-effect. The aim of positivist research is to discover and confirm a set of probabilistic causal laws that can be used to predict general patterns of human activity (Baxter & Babbie 2004; Neuman 2000:66).

The quantitative research paradigm is questioned by interpretive thought, which postulates that observations are actively interpreted by the human observer and, therefore, cannot strictly be objective (Angelopulo & Barker 2006; Rogers 2000). These observations are mediated by the observer’s experiences, perceptions, and social context (Angelopulo & Barker 2006; Gergen 1999; Puth & Steyn 2000). The presumption that scientists can be value free in their approach to knowledge is challenged and the social implications and limitations of their studies questioned (Puth & Steyn 2000).

According to the interpretative approach, the inductive method of observation, which is used in quantitative research as a means of establishing universal statements of truth, fails. It fails because it does not allow for the discovery of individual differences or variations from predictable patterns and because it presumes uniformity (Angelopulo & Barker 2006; Du Plooy 2001; Gergen 1999). According to the interpretative perspective, because people have the ability to interpret a situation and ascribe meaning to it, human behaviour cannot be predicted (Angelopulo & Barker 2006; Du Plooy 2001).

Another objection is that the standards of precise measurement and objectification required by positivism reduce the range of questions that can be effectively researched (Gordon 1999; Howard 1991). Only those issues that reduce phenomena to behavioural and biological laws can be demonstrated in an experimental mode (Becvar & Becvar 2000). The meanings that people ascribe to their experiences, contexts, and relationships cannot be studied using quantitative methodology. Reductionist conceptions of causality do not take into account the primacy of human purpose and agency (Weinberg 2001). Du Plooy (2001: ix) succinctly asks whether *an empirically demarcated view of reality can be superimposed on the complexity of human interaction*.

Critics also charge that positivism reduces people to numbers and that its concern with abstract laws or formulas is not relevant to the actual lives of real people (Du Plooy 2001; Neuman 2000:66). For example, the positivist assumption that the laws of human nature should be universally valid, applicable to all historical eras and in all cultures is challenged (Angelopulo & Barker 2006; Neuman 2000:68). Du Plooy (2001:ix) questions whether people should be or can be *reduced to numerals*.

A different methodology to fit the researcher's interpretive approach is therefore necessary, one that takes into account human cognition, and a reflective approach. The researcher is aiming to construct themes and propose an integrated model of crisis communication with the media. To do this, data will be gathered from a variety of sources, mainly from specialists involved in the field of crisis communication. The qualitative paradigm, the origins of which are described in the

next section, will allow for the flexibility required in achieving these descriptive and exploratory aims.

4.4 Shift from modernism to the post modernism/constructivist paradigm

The qualitative research paradigm is derived from post-modern, constructivist thought. The shift from a purely modernist approach to research was fuelled by developments in such disciplines as physics, biology, mathematics and the cognitive sciences which acknowledged the general inadequacy of objectivism applied to the study of human beings and communication (Du Plooy 2001; Hoffman 2000). Building on Von Foerster and Zopf's (1961) neurophysiological research, Maturana and Varela (1987) found that sensory data undergoes several transformations as it is received and processed by each individual. This means that knowledge is not passively received, either through the senses or by way of communication, but is actively built up by the cognising subject. Maturana and Varela (1987) therefore concluded that there is no such thing as direct perception. In other words, each person interprets and constructs a reality based on his or her experiences and interactions with his or her environment (Angelopulo & Barker 2006). Taking this premise to its logical conclusion, constructivist thought assumes that all mental images are creations of people, and thus speak of an invented reality (Gergen 1999; Watzlawick 1984). Realism, the modernist position that reality exists, was slowly replaced by post-modernism – the view that reality is only ever a view, an invention (Babbie & Baxter 2004; Du Plooy 2001; Hoffman 2000; Speed 1991).

What is important is that because constructivists believe that there is no outside, impartial viewpoint, all aspects of human experience and communication can only be seen from the point of view of the experiencing subject (Angelopulo & Barker 2006; Becvar & Becvar 2000). The objectivist ideal of a detached observer requiring the separation of subject and object, an inside and outside world, as proposed by quantitative research, is not possible (Babbie & Baxter 2004). Watzlawick (1984) claims that the shift from objectivism to constructivism involves a growing awareness that any so-called reality is the construction of those who believe they have discovered and investigated it. Or, as Efran, Lukens and Lukens (1998: 28) explain: *Good constructivists acknowledge the active role they play in creating a view of the world.* Rorty (1991:187) explains that epistemology in the latter half of the 20th century has been marked by a shift from notions of truth to notions of significance (or meaning): *The essence of science lies in the progression of ever-improving theories that explain a particular domain of action. But in the constructionist worldview, since we can't objectively know reality, all we can do is interpret experience. There are many possibilities for how any given experience may be interpreted, but no interpretation is 'really' true. The same 'facts' can be retold from different points of view and they can have very different meanings.* Because reality is constructed through a person's active experience of it, the constructivist assumption is that we can never have access to an objective world, independent of human mental activity (Gergen 1999; Du Plooy 2001). A person behaves in accordance with his or her 'reality' and looks for consensus for this reality in terms of internal consistence (his or her previous experiences) and social consensus (Hoffman 2000). If there is agreement, it can be said that a domain of consensus in language exists between

observers and not because the area of agreement has an objective existence independent of context (Hoffman 2000).

While objectivists (modernists) believe that there is a real world 'out there' and we can know it through language, constructivists contend that *[[language does not mirror nature; language creates the natures we know* (Anderson & Goolishian 1988:378). According to Effran et al (1998), reality is co-constructed in language by the observer internally to him or herself, and externally, through the observer's communication with others. One could argue that we create realities or truths in conversation with others. This suggests that when newspapers or broadcasters use phrases such as "the war on terror" or "internet hacking", they are legitimised as tangible, real concepts. From a constructivist perspective they become value-laden social constructions. In the context of this research, this means that words need to be selected with care in communication with the media because phrases can be considered to be "facts" if enough journalists refer to them as such.

While positivists would try to disqualify alternatives to work methodically to identify universally applicable laws, constructivists and interpretive researchers celebrate diversity (Angelopulo & Barker 2006; Du Plooy 2001). Within the multiple stories and multiple possibilities of the constructivist multiverse, there are no essential or absolute truths, only perspectives or interpretations. This is what scholars refer to as the interpretive turn – a turning away from authoritative meaning (Bruner 1990; Donovan 1999; Du Plooy 2001). It can therefore be said that truth is relative depending on who is making the claim, to whom and in what context (Babbie &

Baxter 2004). The next section describes qualitative research which derives from the post-modern, constructivist or interpretative paradigm discussed in this section.

4.5 Qualitative research paradigm

The qualitative research paradigm will be discussed in terms of the following: its purpose, advantages and disadvantages. The justification for choosing a qualitative research approach for this study and the methodology followed will be described in detail.

4.5.1 Purpose of qualitative research

Having described the foundations of the qualitative research paradigm, the purpose of qualitative research can be summarised as the understanding or the illumination of meanings (Du Plooy 2001; Durrheim & Terre Blanche 2002; Hoshmand 1989). For this reason, qualitative research is described as an interpretative or constructionist method (Du Plooy 2001; Hoshmand 1999). In comparison with the quantitative tradition of experimentation, theory testing and verification (Gergen 1999), qualitative researchers place more emphasis on description, understanding and discovery (Gordon 1999). The attitudes associated with this mode of inquiry have been described as open, reflexive, and sometimes a-theoretical (Flick 2002; Hoshmand 1989). More importance is placed on the researcher as an active participant (Babbie & Baxter 2004; Becvar & Becvar 2000; Puth & Steyn 2000) while the subject, more aptly termed the participant, is viewed as a collaborator, or co-constructor, of meanings (Weinberg 2001). The researcher

who engages in qualitative research is involved with those being studied (Neuman 2000; Puth & Steyn 2000), to the extent that *the researcher is the instrument* (Patton 2002:14). Participants are consulted as to what would constitute meaningful and relevant research questions, and whether the interpretations and conclusions truly reflect their experience, or are valid for the setting studied (Hoshmand 1989; Rapmund 1996). The qualitative researcher is very practical and wants to get to know a particular phenomenon from the perspective of those involved with it (Babbie & Baxter 2004; Neuman 2000). It is acknowledged that the researcher cannot completely know or understand the participants' experiences. This would imply an objectivist ability to stand apart from the interview and make value-free observations (Babbie & Baxter 2004). A distinctive feature of qualitative research is that it is openly constructivist, acknowledging that the meaning of any event or experience is socially constructed, and that each observer will interpret things differently. McLeod (1996:73) underscores the constructivist nature of qualitative research by stating that: *The aim of qualitative research is to construct a representation of an area of human experience, a local knowledge that promotes understanding within readers at a particular historical and cultural place and time.*

Thematic and content analyses are aimed at the recognition of meaning patterns, rather than at the yielding of statistical data (Du Plooy 2001; Rogers 2000). The interpretive base may be theoretical or evolving (Rogers 2000). Rather than upholding traditional standards of reliability and validity, where increased quantification and standardisation is the norm, criteria such as authenticity, or domain-referenced validity, is more appropriate, as is the usefulness of the interpretations gleaned from the research (Durrheim & Terre Blanche 2002).

4.5.2 Advantages of qualitative research

The literature review shows that qualitative research has the following advantages:

- It allows the researcher to observe behaviour in a natural setting without the artificiality that is often associated with experimental or survey research. Qualitative research involves letting the phenomenon speak for itself by observing it (Babbie & Baxter 2004). Many qualitative researchers have long criticised laboratory based research as artificial and noted that people react differently in alternative situations (Neuman 2000).
- Because qualitative methods are designed to allow researchers to pay attention to individual cases and to the meanings that people ascribe to their experiences, contexts and relationships, deep insights can be derived (Du Plooy 2001). This understanding can then be used to empower people (Du Plooy 2001).
- Qualitative methods are flexible and because there are no restrictions or limits to the kinds of data that are collected, researchers are encouraged to pursue new areas of interest (Du Plooy 2001).
- The inductive nature of qualitative research is an ideal mechanism for exploratory studies because pre-existing expectations are not imposed as in quantitative research (Neuman 2000).

- Qualitative research allows for the discovery of individual differences or variations from predictable patterns (Babbie & Baxter 2004).
- Sound qualitative research follows rigorous procedures and uses measurement and analysis techniques which can be classified as scientific (Babbie & Baxter 2004).
- Qualitative reports are generally easy to read and understand (Babbie & Baxter 2004).
- The information that emerges from the data is contextual (Puth & Steyn 2000:157). In other words, the knowledge gleaned from the research is closely related to the specific situation that was studied.

4.5.3 Disadvantages of qualitative research

The disadvantages of qualitative research are as follows:

- The samples are generally too small to allow the researcher to generalise their findings (Babbie & Baxter 2004).
- Reliability of data can be an issue as single observers are describing unique events (Du Plooy 2001; Wimmer & Dominick 1991).

- If qualitative research is not planned properly it may produce nothing of value (Wimmer & Dominick 1991).
- The results or the research may not be able to be replicated due to the individual and subjective nature of the research (Du Plooy 2001).
- The conclusions drawn are often regarded as suggestive rather than definitive (Du Plooy 2001).
- Positivists argue that because of these factors, qualitative research is unscientific (Du Plooy 2001).

Researcher integrity is a critical issue in qualitative research (Neuman 2000:126). Quantitative research addresses the integrity issue by relying on so-called objective technology such as precise statements, standard techniques, numerical measures, statistics and replication (Babbie & Baxter 2004; Neuman 2000:126). Qualitative research places greater trust in the personal integrity of individual researchers, but specifies a variety of safeguards on how evidence is gathered which are described in section 4.5.6 and 4.5.7.

The reason for choosing the qualitative research approach for this study is summarised in the section that follows.

4.5.4 Justification for choosing a qualitative research approach

In summary, the phenomenon under investigation is not statistically or numerically rich and was therefore not suited to a quantitative research methodology (Bloom 2000; Du Plooy 2001). Rather than testing a hypothesis or theory (the aim of a quantitative approach) the researcher was concerned with gaining an understanding of the field in order to empower other crisis communicators with an empirical, illustrative decision-making tool. These exploratory and descriptive aims are characteristically the domain of qualitative research (Babbie & Baxter 2004). For the purposes of this study, the advantages of an interpretive, qualitative approach discussed in section 4.5.2 outweigh the disadvantages discussed in section 4.5.3. Reliability and validity in qualitative research are conceptualised differently from quantitative research designs and will be described in the next section.

4.5.5 Reliability and validity in qualitative research

In quantitative research designs, reliability refers to the consistency with which the measurement device yields the same approximate results when utilised repeatedly under similar situations (Breakwell, Hammond & Fife-Schaw 2000). In short, this refers to the degree with which the research can be replicated. Any researcher should be able to replicate or reproduce the results of others (Du Plooy 2001). Validity refers to the extent to which the instrument measures what it intends to measure (Breakwell et al 2000). This refers to the accuracy of the research. According to Stiles (1993:594), in qualitative research, *[r]eliability refers to the*

trustworthiness of observations or data, while validity refers to the trustworthiness of interpretations or conclusions. Instead of judging observations by their consistency, qualitative researchers evaluate whether the observations are dependable (Babbie & Baxter 2004:298). The methods used to insure reliability in this study are described in the section which follows.

4.5.6 Reliability with reference to this study

Strategies to ensure reliability or the trustworthiness of observations or data have been adapted largely from the work of Stiles (1993:594). They are:

- Data collection and analysis procedures have been described in detail in order to provide a clear and accurate picture of the methods used in the study (Babbie & Baxter 2004; Durrheim & Terre Blanche 2002).
- The context in which the research takes place has been described (Du Plooy 2001). These factors influenced the collection and analysis of the data and were therefore made overt.
- The researcher tried to establish a comfortable relationship with participants to encourage the telling of their stories (Rapmund 1996).
- The researcher tried to be sensitive to the dialogue and encourage revelations (Rapmund 1996).

- Questions were chosen about which the participants had direct knowledge in order to elicit reliable material (Rapmund 1996).
- The researcher engaged closely with the material and considered how the themes that emerged could enrich understanding of the experience of crisis communications (Mason 2002).
- Recording of the interviews through the use of audiotape and transcriptions were open for scrutiny and verification by a supervisor (Rapmund 1996).
- As recommended by Stiles (1993), the researcher repeatedly listened to and read the material. Observations undoubtedly changed in the process.
- Interpretations and themes were grounded by linking them to excerpts from the interview text (Durrheim & Terre Blanche 2002).
- Triangulation or the collection of information from multiple sources such as crisis communication specialists and a host of media articles contributed to the reliability of the investigation (Du Plooy 2001).

4.5.7 Validity with reference to this study

In this research, the following actions were taken to ensure validity or the *trustworthiness of interpretations or conclusions* (Stiles 1993:594):

- The researcher undertook a procedure known as member-checking or testimonial validity (Babbie & Baxter 2004; Rapmund 1996). This means that the researcher checked validity by consulting with the participants throughout the analysis process (Weinberg 2001).
- An ongoing dialogue regarding the researcher's interpretations of the participants' realities and meanings took place. However, it is acknowledged that the participants may still view things differently (Durrheim & Terre Blanche 2002).
- Coherent conclusions made by the interpretation of data were defended by informal reasoning (Babbie & Baxter 2004). The argument was one of likelihood, not certainty or statistical probability (Babbie & Baxter 2004).
- Reflexive validity was ensured because the researcher's interpretations kept changing and were continuously evaluated (Stiles 1993). Alternative explanations were offered during the analytic process (Babbie & Baxter 2001; MacLiam 2003).
- The coherence or quality of the fit of the interpretation was ensured in consultation with a supervisor (Rapmund 1996; MacLiam 2003).
- The researcher tried not to generalise the findings of the research to wider groups (Babbie & Baxter 2004; Du Plooy 2001; Durrheim & Terre Blanche 2002).

- The circularity of this approach, which contrasts from the fixed sequence of steps followed by quantitative researchers, can be seen as a strength, because it forces the researcher to permanently reflect on the whole research process and on particular steps in the light of other steps (Babbie & Baxter 2004; Flick 1998:43).

4.5.8 Selection of participants and collection of data

In qualitative research, sampling is often purposive in that the informants that are chosen are those who can provide rich descriptions of the experiences under study (Du Plooy 2001; Durrheim & Terre Blanche 1999; Weinberg 2001). Informants must be able to articulate their experiences and be willing to give complete and sensitive accounts (Mason 2002; Weinberg 2001). A small sample is appropriate for qualitative research, where the purpose is to elicit as much detail as possible from individual cases (Babbie & Baxter 2004; Breakwell et al 2000).

The researcher approached the heads of organisational communication of three different banking groups in South Africa and requested their participation. The banking groups are the largest in this country in terms of clients and assets. They are Absa, Standard Bank and First Rand. The respective heads of organisational communications were encouraged to share in as much detail as possible their memories of dealing with crises that made the newspaper headlines within the period 1999 - 2003. The participants chosen were the key communication decision-makers during the crises and were thus able to provide rich descriptions about the strategies employed. In the case of Standard Bank, two participants were

interviewed: the head of organisational communication and an external advisor from a specialist crisis communication consultancy. The aforementioned was employed to assist the Standard Bank team during the crisis. The sample was thus a convenience sample because they were conveniently available (Du Plooy 2001). According to Wimmer and Dominick (1991:72) this kind of sampling does not follow the guidelines of mathematical probability. The sample was considered appropriate for the researcher's goal which was to collect information for an in-depth investigation (Du Plooy 2001). The supplementing news coverage of the crises over the period 1999 – 2003 discussed during the interviews, was drawn from three major South African business publications: The Business Times, Business Report and Business Day. This formed the basis for the case studies.

The following benefits of applying a case study methodology are relevant:

(Du Plooy 2001; Neuman 2000; Wimmer & Dominick 1991:156):

- Case studies provide researchers with a wide range of evidence about the research topic. Documents, artefacts, interviews and direct observations can be incorporated into the study. A wealth of information and range of evidence can therefore be obtained.
- The case study method can be used as a retrospective learning tool of real-life situations.
- Case studies can also provide information about why something has occurred. It can help to understand why communication decisions were taken by the crisis communicators during the crisis.

These advantages outweigh the possible disadvantages of the case study methodology, such as a lack of scientific rigor or its time-consuming nature (Du Plooy 2001; Wimmer & Dominick 1991).

The qualitative in-depth interview was chosen as the data collection tool because of the researcher's intention to understand informants' perspectives regarding their situations, as expressed in their own words. In contrast to structured interviewing, qualitative interviewing has been referred to as non-directive, unstructured, open-ended and non-standardised (Breakwell et al 2000; Du Plooy 2001). The in-depth interview can be described as a conversation between equals, rather than a formal question-and-answer exchange. *Far from being a robotlike data collector, the interviewer, not an interview schedule or protocol is the research tool* (Bogdan & Taylor 1998:77). Questions were open-ended and discovery oriented and participants were encouraged to tell their stories or case studies with as much detail as they were willing or able to provide. One very important factor is that open-ended questions allow for answers that the researcher may not have foreseen in the construction of a questionnaire (Du Plooy 2001; Wimmer & Dominick 1991:105). Unlike pre-planned questionnaires, open-ended interviews do not limit the kinds of data that can be collected, which allows the researcher flexibility (Du Plooy 2001). In comparison with traditional survey methods, in-depth interviews provide more accurate responses on sensitive issues (Du Plooy 2001). Another benefit is that respondents can answer in detail and qualify and clarify responses which encourages a richness of material and can reveal a respondent's logic and frame of reference (Du Plooy 2001; Neuman 2000). However, there are some disadvantages to open-ended questions which have been identified:

- Different respondents give different degrees of detail in answers (Puth & Steyn 2000).
- Responses may be irrelevant or buried in useless detail (Neuman 2000: 241).
- Comparisons and statistical analysis become very difficult (Neuman 2000: 241).
- Coding responses is difficult (Neuman 2000:241).
- Questions may be too general for respondents who lose direction (Neuman 2000:241).
- Articulate and highly literate respondents have an advantage (Du Plooy 2001).
- Participants may not be willing to share all information or may not tell the truth (Du Plooy 2001). They may censor their stories or simply may not be fully aware of, or able (because of organisation confidentiality restrictions), to articulate certain aspects of their experiences (Breakwell et al 2000).
- The ability to generalise is curtailed (Du Plooy 2001).
- Respondents may ascribe different meanings to the words used by the researcher because their conceptualisations of reality may differ (Du Plooy 2001).

To alleviate these problems, the researcher checked the shared meanings of concepts and skilfully guided the participants in the interviews so that appropriate and relevant material could be obtained for analysis (Du Plooy 2001). The researcher was careful not to lead the participants in a particular direction – or to put words into their mouths (Du Plooy 2001).

The aim was to elicit the most detail possible about participants' experiences of being responsible for crisis communication to the media during selected crises that made newspaper headlines. This information needed to be analysed and the following section describes the process that was followed by the researcher.

4.5.9 Data Analysis

Data analysis is the process whereby order, structure and meaning are imposed on the mass of data that is collected in a qualitative research study (Rapmund 1996:118). The relevance of the research findings lies in proper interpretation (Du Plooy 2001). Both qualitative and quantitative researchers examine empirical information to reach a conclusion based on evidence. The conclusion is reached by reasoning and simplifies the complexity of the data (Neuman 2000:418). Interpretation brings logical and observational aspects together in the search for patterns in what is observed (Babbie & Baxter 2004:9).

An interpretive approach called hermeneutics was selected in order to understand the worldview of the participants. According to Neuman (2000:70), hermeneutics refers to: *[a] detailed reading or examination of a text, which could refer to conversation, written words, or pictures. A researcher conducts "a reading" to discover meaning embedded within text. Each reader brings his or her subjective experience to a text.* The term hermeneutics is a Greek word which means to interpret and is derived from the story of Hermes, a mythological messenger who was tasked with changing the unknowable to a form that humans could understand, via language and writing (Babbie & Baxter 2004; Van Manen 2002).

As a contemporary research approach, hermeneutics involves understanding and interpretation. *The aim is to understand how people experience the world pre-reflectively, without taxonomising, classifying or abstracting it* (Van Manen 2002:9). Hermeneutics endeavours to discover meaning and achieve understanding, not to extract theoretical terms or concepts at a higher level of abstraction (Van Manen 2002). It attempts to interpret a person's experiences through a text which could refer to a conversation or written words (Neuman 2000:70). The assumption is however that the lived experience is hidden. Thus the researcher's task, in collaboration with the participant, is to uncover the shared common practices of the experience (Van Manen 2002). The aims and principals of hermeneutics are in keeping with the qualitative paradigm on which this study rests.

At the beginning of the data analysis process, the qualitative researcher becomes aware of meanings, patterns, regularities, explanations and possible configurations. The competent researcher should, however, be aware of early conclusions and approach these conclusions with a sceptical, open mind (Van Manen 2002). Final conclusions should not be made until data collection has been completed. In both qualitative and quantitative forms of data analysis, researchers strive to avoid errors, false conclusions and illusions. They sort through the various explanations, discussions and descriptions seeking those that are more authentic and valid (Neuman 2000:418). Dialoguing between the researcher and the text; between the researcher and supervisor; between the researcher and the account itself, took place (Rapmund 1996). *The process of developing categories and themes is an iterative cycle that you engage in over and over* (Babbie & Baxter 2004: 367). This method shows that the qualitative, hermeneutic approach to

analysis is non-linear and cyclical (Neuman 2000). With each cycle or repetition, the researcher gained new insights. During this process the researcher looked for any possible misconceptions, deeper meanings, alternative connotations, and changes over time as she examined elements of the text and the whole text (Rapmund 1996).

The researcher's goal was to organise the large quantity of specific details gathered into a coherent picture or model. A qualitative researcher rarely tries to document universal laws (Neuman 2000:419). The researcher is satisfied by building a case or supplying supportive evidence (Neuman 2000:419). Although proponents of hermeneutics do not generally advocate the use of specified techniques, the following approach was adapted from Rapmund (1996) and applied to this study:

Table 4.5: Hermeneutic technique used to analyse data from interviews

Step 1	Permission was obtained from participants before being interviewed. The interviews were tape-recorded
Step 2	The taped interviews were transcribed.
Step 3	The researcher carefully listened to the tape recordings while simultaneously reading the transcribed interviews.
Step 4	The researcher read the text repeatedly and became immersed in each of the participant's interviews in order to make sense of their communication decisions and strategies during the crises they described
Step 5	The researcher identified themes or

	patterns from each of the original texts and used excerpts from the original texts to support these proposed themes.
Step 6	Themes common to all three participants and case studies were identified. A comparative analysis was then undertaken in order to integrate the findings from previous research and literature with the themes articulated in this study, not to prove that these themes were right, but as a way of uniting multiple voices.

The steps described above summarise the process followed by the researcher in analysing the data collected.

4.6 Conclusion

This chapter discussed the qualitative research approach and methodology of this study. The study was described as partly exploratory and partly descriptive (Babbie & Baxter 2004:30; Neuman 2000:21-23). It has a partly *exploratory* element because a large portion of the current literature on crisis communication has focused on the structural aspects of crisis response, rather than on the content (what communicators actually say). The researcher's stance is investigative and seeks to discover *what* kind of communication decisions are made during crises (Babbie & Baxter 2004:30; Neuman 2000:21; Puth & Steyn 2000). It is also partly *descriptive* because it sets out to clarify a sequence of steps and presents a picture of crisis communication to the media – *how* communication decisions are made during crises (Babbie & Baxter 2004:31; Neuman 2000:21; Puth & Steyn 2000).

Because qualitative methods are designed to allow researchers to pay attention to individual cases (Neuman 2000) and to the meanings that people ascribe to their experiences, contexts and relationships - deep insights can be obtained which can be used to empower people (Du Plooy 2001). The samples are however generally too small to allow the researcher to generalise their findings (Babbie & Baxter 2004). Nevertheless it was argued that the value of this research approach will be in its description and careful insights. The use of this kind of qualitative approach requires a suspension of belief in the singular authority of the traditional scientific method (Gergen 1999) and a tolerance for studies that are not concerned with the testing of hypotheses designed to identify general laws, independently of the individual's experience or of the context (Babbie & Baxter 2001; Rapmund 1996).

Chapter five which follows discusses the results of the research undertaken on the case studies using the approach described in this chapter.

CHAPTER 5

FINDINGS FROM THE CASE STUDIES

5.1 Introduction

In the previous chapter, the research approach and methodology of this study was outlined. A qualitative, constructivist paradigm was considered more appropriate than a quantitative, positive paradigm because of the interpretive nature of the research. In this chapter, the results of the research undertaken on the case studies are discussed, which together with elements drawn from the literature, forms the basis for the model proposed in chapter six. The data collection process involved interviews with the heads of communication/media at three of the largest banking groups in South Africa in terms of assets and customer volumes – Absa, First Rand and Standard Bank. The participants were selected because of their hands-on involvement in specific crises in their roles as professionals in the area of media communications. They were in direct contact with the most senior executives of the respective organisations as well as the plethora of journalists seeking information during the crises. The crises themselves were selected by the participants because of the considerable publicity they garnered, and also because, after this period of time, it is unlikely that the analysis undertaken in this study will generate further, possibly damaging publicity. The participants were encouraged to share in as much detail as possible their recollections of the respective crises that made newspaper headlines, as well as the manner in which they were managed.

Material obtained from the interviews with specialists was supplemented with the relevant coverage in selected media which was obtained electronically from the web pages of three business publications with national readership in South Africa, namely the weekly Sunday Times Business Times (Johnnic Publishing), daily Business Day (Johnnic Publishing) and daily Business Report (Independent News Media). The Business Report supplement appears in the following national newspapers: The Mercury, The Star, The Saturday Cape Argus, The Pretoria News, Cape Times, Sunday Tribute, The Sunday Argus, The Sunday Independent, The Saturday Star and The Weekend Argus. The researcher entered the respective websites of the publications listed and searched for articles relating to the crises using key words. In this way case studies were compiled. The content of the interviews with participants was evaluated against the media coverage. The three publications were targeted because of their business focus, the recommendations of the three interviewees and the publications' wide readerships. They are the predominant, pre-eminent daily and weekly business publications in this country (Levine 2006). Each of them is circulated nationally and online. Average circulation figures for the publications at the time of the selected crises are as follows: Sunday Times Business Times 505 066, Independent Newspapers Business Report 172 899, Business Day 41 954 (The Media List 2003:2-4). Although extensive coverage, some of it potentially scathing, was received in many other consumer oriented publications, online and in the broadcast media, with respect to the financial sector, the selection of publications chosen is considered a balanced representation of overall coverage. The respective organisational crises examined are:

- Absa (July – October 2003): an internet hacking/online banking crisis

- Standard Bank (October 1999 – March 2001): a hostile take-over attempt of Standard Bank by competitor bank Nedcor
- First Rand Bank (February – November 2003): a non-executive director accused of corruption.

5.2 Summaries of case studies

A summary is presented of the three case studies based on an analysis of the well-publicised cases in the specified media and time frame. The headings of the clippings are listed in date order. Comprehensive analyses of the case studies, with quotes from the crisis communicators and transcripts of the media articles appear in Annexure A (Absa), B (Standard Bank) and C (First Rand).

5.2.1. Absa: An Internet “hacking” crisis

In 2003, three of Absa’s Internet bank clients were defrauded through an illegal procedure known as identity theft. This is the invasion of a client’s personal computer through the planting of key-logging software which records the customer’s confidential PIN and username. The criminal then uses this information to impersonate the customer and steal money from the victims. The media hype was sensational in the reporting of these losses. Absa’s initial response was to distance itself from all responsibility for the crime by putting the onus onto its clients to protect themselves from this form of fraud. The Bank was highly criticised in the media for this response. Under pressure, Absa later offered free software to clients and promised to refund money stolen in this way. The media coverage for

the time period analysed in this research is summarised in Table 5.1. The newspaper articles reflect the content of discussions with the participant. They especially highlight the change in strategy adopted from a distant, clinical approach to one of customer reassurance.

Table 5.1: Media coverage of the Absa internet “hacking” crisis during the period July 2003 – October 2003

Date 2003	Publication	Heading and first line of article
20 July	Sunday Times	Hacker cleans out bank accounts Hundreds of thousands of rands stolen via Internet from Absa clients.
22 July	Business Day	Online banking faces security crisis Clients who use internet facilities must be vigilant about releasing their details.
22 July	Business Report	ID theft at Absa is first in SA crime logs The theft of the identities of three Absa customers to access their internet banking accounts appeared to be the first crimes of this kind in this country, but a recent survey in the US has claimed that 7 million American adults have been victims of identity theft over the past year.
23 July	Business Day	Internet fraud The theft of hundreds of thousands of rands from Absa bank accounts via the internet raises numerous concerns both for consumers and for banks.
25 July	Business Report	Absa sticks to its guns despite scepticism Banking group Absa yesterday stuck to its original version of how a fraudster gained unauthorised access to, and transferred funds from, the internet bank accounts of three of its clients.
26 July	Business Report	Your PC, your responsibility, say banks Inadequate security on your personal computer, or PC, that you use for internet banking is the equivalent of putting your money on the pavement outside your house and hoping that nobody takes it.
27 July	Sunday Times	Two men linked to Absa hacker case Two men worked together in an elaborate plot in the sensational Absa bank account hacking case, the Sunday Times can reveal.
27 July	Sunday Times	Banks counter fears of online banking fraud Banks have moved to boost customer confidence in their Internet banking platforms following last week’s discovery that someone had accessed funds in three Absa Internet banking accounts.
28 July	Business Report	It’s safety first Standard tells its online clients Bank spends millions on software.
30 July	Business Report	The customer should come first in a crisis, at any cost South African companies should be sitting up and taking notes. If ever there was a time to learn about how not to deal with an external threat, it was now.

3 August	Sunday Times	Absa hacker's sidekick says no bank is safe A computer programmer admitted this week that he had helped the alleged Absa hacker.
25 August	Business Report	How can we fob you off? Cartoon depicting Absa call centre operator telling a client Absa is not responsible for Internet security.
21 September	Sunday Times	Alleged Absa hacker's secrets revealed in court The first details of how the man accused of being the Absa hacker allegedly stole money from bank accounts over the Internet emerged in court this week.
5 October	Sunday Times	New security fears for web banking Expert proves that latest measures don't protect online customers
6 October	Business Day	Banks put brave face on hacking SA banks moved yesterday to reassure customers alarmed by reports at the weekend that their savings may be at risk from dishonesty in online banking operations.
10 October	Business Day	Absa internet scandal 'only tip of iceberg' Absa's recent internet banking fraud scandal was the tip of the iceberg and revealed only a small percentage of the risk facing South African companies, Scorpions head of forensics Praveck Geeanpersadh said yesterday.
12 October	Sunday Times	Banks 'must pay up if hacked' Customers who lose money to Internet bank hackers have a legal right to be refunded by the bank, a leading lawyer said this week.

5.2.2 Standard Bank: A hostile take-over attempt of Standard Bank by competitor Nedbank

In 1999, competitor group Nedcor (Nedbank) proposed a hostile take-over bid of Stanbic (Standard Bank). While the media were initially in favour of the bid and openly supported Nedbank's stance, largely because of respect for, and good relations with its then CEO, Richard Laubscher, Standard Bank's communication team and new CEO Jacko Maree, put forward compelling arguments against the proposed merger and eventually won public sympathy for their cause. The team successfully used the media as a platform to stage its offensive against the merger. The media coverage on this event for the time period is summarised in Table 5.2. It is interesting to note how the media continuously found new angles to keep the story alive in the minds of their readers. For example, when there were

no direct confrontations or information flowing between the two newsmakers, Nedcor and Stanbic, the journalists started to create interesting perspectives to write about. These included the legal wrangles and implications of the proposed take-over and the personalities and remarks of the regulatory authorities involved in the debate, such as the minister of the Reserve Bank, Tito Mboweni and the then finance director general, Maria Ramos.

Table 5.2: Media coverage of Standard Bank's crisis during the period

October 1999 - March 2001

Date 1999 - 2001	Publication	Heading and first paragraph of article
4 October 1999	Business Report	FirstRand and Absa expect bigger slice FirstRand and Absa, two of SA's "big four" banking groups, would be short-term winners and boost their business if Nedcor's proposed bid for Stanbic was successful, senior management at FirstRand and Absa said last week.
27 October 1999	Business Day	Stanbic turns down Nedcor's initial bid Stage set for battle royal as Nedcor is likely to go directly to shareholders.
27 October 1999	Business Report	Stanbic rejects Nedcor's merger overtures Stanbic yesterday declared that the proposed tie-up with its smaller rival was "not in the best interests of Stanbic shareholders" but it did not reject the deal.
30 October 1999	Business Report	Stanbic board warns shareholders of a possible hostile bid by Nedcor Stanbic again rebuffed a merger proposal from its smaller rival Nedcor yesterday and warned its shareholders Nedcor could launch a hostile bid.
1 November 1999	Business Day	Stanbic faces new Nedcor pressure New CE says implementing such a merger is very complex, with huge risks.
1 November 1999	Business Day	As Nedcor prepares to make a quick decision on whether to launch a hostile offer for Stanbic, newly appointed Stanbic CEO Jacko Maree said his first priority was to get staff back to work after the disruption caused by Nedcor's bid.
7 November 1999	Business Times	Nedcor poised to move as Stanbic row brews Hostility worsens as Stanbic goes to Securities Regulation Panel
12 November 1999	Business Day	There is no longer any chance of a friendly merger If and it is a big if the merger happens, it may yet be amiable but it will not be at market prices.
16 November 1999	Business Times	Nedcor's bid for Stanbic backed by shareholders Nedcor had gained virtually enough shareholder backing to make the outcome of its long awaited bid, announced early yesterday, for larger rival Stanbic a

		foregone conclusion. The investor support came in the form of irrevocable undertakings and written indications of support. Richard Laubscher, Nedcor's chief executive, said: "The institutions have overwhelmingly evidenced their strong support for the deal."
16 November 1999	Business Day	Burying the hatchet is key to friendly merger Nedcor needs to allay Stanbic's fears over proposed deal if a hostile bid is to be avoided.
16 November 1999	Business Day	Merger could result in 10 000 job losses Nedcor, SAs fourth-largest bank, says 10 000 jobs will be lost if the proposed merger between it and Stanbic goes through, with the number of staff at the combined operation dropping from the current 50 000 to 40 000 in three year's time.
16 November 1999	Business Day	Tough days ahead for ambitious deal Nedcor will have its work cut out as it sews up merger.
16 November 1999	Business Day	Banking shares end mixed in wake of bid Banking shares ended the day on a mixed note yesterday following news of a hostile takeover bid by Nedcor of its rival Stanbic.
16 November 1999	Business Day	Suitor says shareholders representing more than half of targeted group support merger bid. Nedcor has turned up the heat on Stanbic, launching a R29bn, all-paper merger bid, which analysts say Stanbic would be hard pressed to reject.
17 November 1999	Business Report	Besotted Nedcor should pay some heed to Old Mutual Which part of "no" don't you understand, was the third, remarkably consistent, response by Stanbic to Nedcor's persistent amorous advances yesterday.
19 November 1999	Business Report	Stanbic calls securities regulator into bid war Stanbic yesterday confirmed it had written to the Securities Regulation Panel (SRP) expressing its concern that Stanbic shareholders might have been misled by Nedcor's claimed institutional backing for its bid. The letter comes as Stanbic steps up its defence and the two banks dig in for a protracted battle in the run-up to year-end.
19 November 1999	Business Day	Stanbic questions Nedcor's claims Stanbic has expressed concern to the Securities Regulation Panel that the shareholder support claimed by Nedcor in its hostile bid may not be as solid as it has led the market to believe.
20 November 1999	Business Report	Banking battle may end up too costly As the battle rages on between banking groups Nedcor and Stanbic, fuelled by the former's hostile takeover bid of its bigger rival, the price may be too heavy for the merged entity if the deal is successful. But at what price? Market share.
21 November 1999	Business Times	Stanbic shores up merger defences The besieged bank is to beef up its top team.
22 November 1999	Business Day	(Letters) Nedcor-Stanbic merger driven by vested interests It is amazing that one shareholder, Old Mutual, can bully others into compliance, despite basic flaws in the transaction.

22 November 1999	Business Day	(Letters) Goodwill cannot be bought, it has to be earned As a Standard Bank client for 49 years, I must express my disgust at the hostile bid engineered by Chris Liebenberg to gain control of the bank.
22 November 1999	Business Day	Bigger is not always better, says Maree SA does not necessarily need to follow the global trend in bank mergers, and size is not necessarily an advantage in this market, Stanbic CE Jacko Maree said.
24 November 1999	Business Report	Staff association backs Nedcor bid The Insurance and Banking Staff Association yesterday threw its weight behind Nedcor's hostile takeover offer for Stanbic.
24 November 1999	Business Day	Nedcor, Stanbic in regulatory dispute Will deal be judged by registrar and minister, or by competition tribunal?
26 November 1999	Business Day	Stanbic takes off the gloves, landing a blow to Nedcor bid SA has not seen the likes of the presentation given yesterday by Stanbic to defend itself against Nedcor's hostile takeover bid.
26 November 1999	Business Day	Battle for Stanbic – Bank wants top spot back Slashing costs through merger likely to produce only short-term results. Stanbic is determined to prove it can return to being Sas best-rated bank, Stanbic CE Jacko Maree said yesterday as he presented the groups case for its defence against Nedcor's hostile takeover bid.
26 November 1999	Business Day	Battle for Stanbic – Unions threaten legal action to prevent merger The Congress of SA Trade Unions (Cosatu) yesterday threatened to take legal action to prevent a merger between Nedbank and Stanbic. Meanwhile Stanbic announced that 3000 jobs would be cut over the next three years.
26 November 1999	Business Day	Stanbic drops a bombshell CE Jacko Maree says far more generous terms were offered when Nedcor attempted to buy Liberty's stake a year ago.
28 November 1999	Business Times	Gordon triggered Nedcor bid Battle of the banks. The breakdown in relations between Liberty Life founder Donald Gordon and Standard Bank management over the past four years was the catalyst for Nedcor's attempts to take control of Stanbic.
30 November 1999	Business Day	Nedcor wants Sasbo to clarify its stance Challenge follows confusion over which position has been endorsed by members.
30 November 1999	Business Day	Libam pension trustees to vote on Nedcor bid Liberty Asset Management is to take unusual step of bringing pension fund trustees in on the crucial decision of how to vote their shares in Nedcor's hostile bid for Stanbic.
1 December 1999	Business Day	Old Mutual is firm on Stanbic, Nedcor shares voting stance Old Mutual yesterday strongly defended its stance in the controversy surrounding the voting of its shares in Nedcor and Stanbic.

2 December 1999	Business Report	Union takes umbrage at Nedcor The strained relations between Sasbo and Nedcor over the latter's hostile bid for Stanbic took a knock yesterday, with Sasbo accusing the bank of trying to forge a "clumsy alliance" with union dissidents.
3 December 1999	Business Report	Sasbo wins support for its anti-merger stance Sasbo, the Cosatu-affiliated finance union that opposes Nedcor's hostile bid for Stanbic received a pledge of support yesterday from the International Federation of Commercial Clerical Professional and Technical Employees.
3 December 1999	Business Report	Nedcor-Stanbic decision postponed The Reserve Bank would decide early next year whether Nedcor's hostile bid for Stanbic could go ahead
5 December 1999	Business Times	Stanbic goes to court The bank wants a legal ruling on which authorities should rule on Nedcor's takeover plan.
7 December 1999	Business Report	Cool it, Tito tells banks Mboweni has forcefully stepped into the two-month-old battle in which Nedcor has proposed a merger with rival Stanbic, which has insisted on retaining its independence.
7 December 1999	Business Day	Mboweni intervenes in banks battle Governor asks Stanbic and Nedcor to show maturity in their handling of proposed merger.
8 December 1999	Business Report	Mboweni baffles bank boss Stanbic said yesterday it wanted clarity on remarks made by Tito Mboweni, the Reserve Bank governor, regarding its merger battle with smaller rival Nedcor.
8 December 1999	Business Day	Stanbic court action to proceed Stanbic is to proceed with its court action over who will adjudicate Nedcor's hostile bid, despite negotiations about the correct procedure between the Reserve Bank and the Competition Commission.
8 December 1999	Business Day	Cool it, Governor One wonders whether former labour minister, now Reserve Bank governor, Tito Mboweni thought he was intervening in a shop floor dispute when he told Nedcor and Stanbic to behave themselves.
9 December 1999	Business Day	Competition body will judge merger Nedbank's hostile takeover bid for Stanbic will be judged by the Competition Tribunal and if there is any doubt about its jurisdiction over competition matters, the competition authority will seek to change the law, competition commissioner Alistair Reuters says.
10 December 1999	Business Day	Get up, stand up for your right to regulate banking merger The battle of the banks was beginning to be more than a little predictable. Fortunately, the battle of the regulators has provided the most recent titillation.
12 December 1999	Business Report	Stanbic goes to the bench to fend off Nedcor bid Standard Bank has carried out its threat to go to court over which regulatory authority should rule on the threatened hostile takeover bid by Nedcor.
13 December 1999	Business Day	Manuel is dragged into Stanbic fray It is up to the minister to give his consent in hostile bid, says Nedcor's takeover target.

13 December 1999	Business Day	Letters. Planned bid by Nedcor for Stanbic may be too pricey and too risky. In Germany, a provision in company articles still exists that no single shareholder, however big, can exercise more than 5% of the votes.
22 December 1999	Business Report	Laubscher named Business Report's top business newsmaker of 1999 Business Report has chosen Richard Laubscher, the chief executive of Nedcor as its top newsmaker of the year. Laubscher has set the banking sector on fire with Nedcor's hostile bid for Stanbic. But he has also modernised the already low-cost Nedcor with forays into information technology with a Didata partnership and advisory services with the acquisition of law firm Edward Nathan & Friedland.
22 December 1999	Business Report	Banking opened the door to much-needed change The noise surrounding Nedcor's hostile takeover bid for larger rival Stanbic was just the wake-up call needed to stir SA's somnolent banking sector as the century drew to a close.
12 January 2000	Business Day	Hostile bid investigation put on hold pending court ruling The Competition Commission investigation of Nedcor's hostile bid for Stanbic is on hold, while the Commission waits for high court ruling on who should regulate the deal.
17 January 2000	Business Day	All parties will be heard, says Ramos Nedcor, Stanbic and interested parties will have chance to be heard when regulator of banks weighs Nedcor's hostile bid for Stanbic, says finance director-general, Maria Ramos.
23 January	Business Report	Nedcor bosses fall victim to Stanbic ribaldry Nedcor's top brass are shrugging off reports that they were the object of pointed corporate voodoo and tomfoolery at an end-of-year party in December attended by senior managers and directors of their intended takeover victim, Stanbic.
23 January 2000	Business Times	Stanbic blows whistle on Registrar Wiese's 'favouritism' Standard Bank has raised concerns that the Registrar of Banks, Christo Wiese, "favours" Nedcor's merger bid without having given Stanbic the chance to present its argument about the competitive implications.
26 January 2000	Business Report	Stanbic argues need for Competition Commission Stanbic yesterday gave its opening arguments to the high court in Pretoria in its attempt to have Judge Nico Coetzee rule that Nedcor's hostile bid for it must be cleared by the Competition Commission and not left to the registrar of banks and the finance minister as planned.
2 February 2000	Business Report	Bank brawl antics can get shareholders hostile Last week's courtroom shenanigans between the parties to Nedcor's proposed takeover of Stanbic illustrate that our regulatory and legal framework and even our corporate culture is still far from ready for the sort of hostile – or even agreed – takeovers that are routine in the UK and US.
7 February 2000	Business Report	The end of the road for banks may turn out to be the beginning

		Nedcor is so much at the end of its hi-tech, top niche road that it needs a merger with Stanbic or acquisitions of law firms to grow.
8 February 2000	Business Report	Court ruling strengthens Nedcor's hand Shares in Nedcor, the smallest of the country's big four banks, rallied yesterday after a high court ruling that its hostile takeover bid for Stanbic should be reviewed by the registrar of banks and the finance minister.
8 February 2000	Business Day	Nedcor's bid for Stanbic off the hook Court decision makes it clear that the finance minister has the last say.
10 February 2000	Business Day	Competition Act to change Erwin says judge's interpretation of law in Nedcor's decision was extreme.
10 February 2000	Business Report	Whiners and spin doctors are drowning out the cool voice of rational debate Banking brawl
10 February 2000	Business Report	Nedcor to fight Stanbic's appeal by saying delays will hurt shareholders Nedcor's hostile bid for Stanbic returns to the courtroom today when Stanbic seeks to appeal Monday's high court ruling that the Banks Act was the principal law governing Nedcor's bid.
10 February 2000	Business Report	Nedcor's takeover bid may have a degree of desperation If it is not one takeoer, it is another: pushing the Randfontein and Harmony saga off the front business pages is the return of the Nedcor and Stanbic merger – or hostile takeover, as Stanbic spokesmen describe it.
11 February 2000	Business Report	Post-merger banks often lose their edge In the simmering saga surrounding Standard Bank and Nedbank, there has not been much input in the debate from those who are at the coalface of events – the customers.
11 February 2000	Business Report	Nedcor and Stanbic shares dip after leave to appeal is granted Shares in Nedcor and Stanbic fell yesterday as interest in their takeover tussle dwindled, after Stanbic won leave to appeal against Monday's court ruling that the Banks Act was the principal law governing Nedcor's hostile bid.
16 February 2000	Business Report	Nedcor blows its IT trumpet Nedcor, the banking group engaged in a hostile takeover bid for its larger rival Stanbic, yesterday made its clearest statement yet that it considered itself at the forefront of convergence between IT and banking.
16 February 2000	Business Day	Nedcor tries to revive interest in bid Nedcor launched a new charm offensive yesterday aimed at reviving lagging interest in its bid for Stanbic.
17 February 2000	Business Day	Hostile bid welcomes South Africa to real world Nedcor-Stanbic battle shows the era of gentility is over and the day of the corporate raider has arrived.
20 February 2000	Business Report	Absa and FNB cash in on Nedcor-Stanbic merger brawl Absa and FNB are cashing in on the Nedcor-Stanbic merger brawl and gearing up to recruit customers who have been left disenchanted and uncertain by corporate crossfire.

22 February 2000	Business Day	Stanbic takes Transnet boss and Stals on board Stanbic, currently involved in a hostile takeover bid by smaller rival Nedcor, said yesterday it had appointed Transnet boss Saki Macozoma as its joint deputy chairman from March 1.
1 March 2000	Business Day	Bid for Stanbic not smart thing Nedcor's hostile takeover bid for Stanbic will place Namibia's banking industry in difficult situation incoming MD of Standard Bank Namibia Owen Tidbury says.
16 March 2000	Business Day	Group's board still convinced Nedcor's hostile takeover bid will destroy value.
17 March 2000	Business Day	Stanbic results as expected even before Nedcor offer emerged , says analysts polled after the release of Stanbic's year-end results yesterday agreed that the results left Stanbic neither more nor less vulnerable to Nedcor's hostile bid.
17 March 2000	Business Day	The bottom-line growth of 27% was no surprise but Stanbic provided some information gems with its results this week. First it revealed that its defence against Nedcor's hostile bid had cost it R54m so far.
20 March 2000	Business Day	Semantics to take centre stage in takeover tussle When I use a word, Humpty Dumpty said in a rather scornful tone, it means just what I choose it to mean neither more nor less (editorial piece).
1 April 2000	Business Report	Court dismisses Stanbic's application The court of appeal in Bloemfontein yesterday turfed out Stanbic's appeal against an earlier high court ruling that the Banks Act was the main applicable law in rival Nedcor's proposed hostile bid for it.
3 April 2000	Business Day	Nedcor bid needs only ministers ok Pricing is becoming an issue as Stanbic's offering improves.
7 April 2000	Business Day	Bank regulators might ask: How big is too big for SA? Now that the appeal court has clarified who really is going to judge Nedcor's hostile bid for Stanbic, we are about to discover what SAs policy on big bank mergers is.
9 April 2000	Business Times	Hostilities hotting up The hostile bid by Nedcor for Stanbic is likely to proceed at a faster pace. Both sides have embarked on an energetic campaign to convince regulators, shareholders and the public of the merits of their positions.
16 April 2000	Business Report	Nedcor calms top Stanbic staff's worries Stanbic was forcing its senior management to walk the plank by asserting that employees would jump ship in the event of a merger between Standard Bank and Nedcor, Richard Laubscher, the chief executive at Nedcor, said on Friday.
17 April 2000	Business Day	Nedcor CE is critical of Stanbic's tactics Nedcor management was fully cognisant that it would put the banking sector into play following Nedcor's hostile bid for rival Stanbic, Nedcor CE Richard Laubscher said on Friday.
10 May 2000	Business Day	Banks merger debate heating up again Market seems to be turning away from optimism over

		chance of bid's success.
10 May 2000	Business Times	Stanbic reopens war of words Stanbic, the country's second largest retail bank and the target of a proposed bid from rival Nedcor, used its latest annual report to slam the bid and rekindle its war of words against Nedcor.
24 May 2000	Business Times	Nedcor-Stanbic union may first strain shares A merger of banking rivals Nedcor and Stanbic could at first put pressure on their shares as a union of two of SA's biggest banks looks a long and painful haul, analysts said yesterday.
25 May 2000	Business Day	Watchdog is opposed to take-over Competition in the industry could drop if Nedcor succeeds in its bid for Stanbic, says report The Competition Commission has expressed strong reservations about Nedcor's bid for Stanbic in its report to the registrar of banks.
25 May 2000	Business Report	Stanbic attacks the terms of Nedcor bid Stanbic remained extremely dissatisfied with the mechanism of the proposed bid presented by its smaller rival Nedcor.
30 May 2000	Business Report	'Too early' for Nedcor decision on Stanbic UK Nedcor said yesterday it had not decided whether it would sell the London operations of Stanbic if its hostile bid for rival lender was successful, although the step is seen as likely.
13 June 2000	Business Day	Nedcor talks of 7000 new jobs Nedcor says it will hire 7000 people in the first three years if its bid for Stanbic is successful.
22 June 2000	Business Report	Sasbo hails end to takeover that would have cost thousands of jobs It was gigantic party time last night for Sasbo, the finance union, after Trevor Manuel, the finance minister, blocked Nedcor's hostile takeover bid for Stanbic.
22 June 2000	Business Day	Nedcor's bid blocked The decision puts end to the 10-month hostile bid for Stanbic, and is likely to affect other bids.
22 June 2000	Business Report	Manuel sinks bank merger One of South Africa's most bitterly contested takeover attempts drew to a close yesterday when Trevor Manuel, the finance minister, ruled against Nedcor's application to buy more than 49 percent of Stanbic.
23 June 2000	Business Report	Cosatu welcomes Manuel's decision Shares in Nedcor and Stanbic continued to plummet yesterday following the refusal this week by Trevor Manuel, the minister of finance, to allow Nedcor to merge with Stannic.
10 August 2000	Business Report	Back to core business for Maree After a fiery baptism, the leader of South Africa's largest banking group is convinced he is on the right path to achieve growth at home, elsewhere in Africa and internationally.
15 August 2000	Business Day	Stanbic will post an earnings leap of up to 26% in its interim results this week, despite the money it spent repelling a takeover bid by rival bank Nedcor, analysts said yesterday.
15 March 2001	Business Report	Stanbic rise in line with expectations Stanbic lived up to promises made during its defence against a hostile takeover bid by rival Nedcor last

		year, notching up a 26 percent rise in headline earnings a share to 285c for the year to December.
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5.2.3 FirstRand: a non-executive director accused of corruption

In 2003, the accusations of corruption levelled against FirstRand's non-executive director, Mac Maharaj, caused FirstRand's governance principles to be openly questioned. FirstRand ordered an independent inquiry into the matter when the story broke in the Sunday Times on 16 February 2003. FirstRand was initially defensive in their attitude toward the media, but, with the guidance of a new crisis communication consultant, became a lot more lot proactive in their approach to the media and managed to turn the situation around in its favour. Table 5.3 presents a summary of the media coverage for the time period on this event.

Table 5.3: Media coverage of FirstRand's crisis during the period February – November 2003

Date 2003	Publication	Heading and first line of article
16 February	Sunday Times	Shaik paid money to Maharaj Former transport minister did not declare cash and gifts.
21 February	Business Day	Maharaj takes time out from FirstRand Although FirstRand director Mac Maharaj has still not broken his silence on allegations that he received irregular payments from a Durban businessman while he was transport minister, the former politician was granted a three-month leave of absence from the banking group yesterday, while he deals with the claims.
21 February	Business Report	Mac Maharaj takes leave of absence FirstRand had agreed to give director Mac Maharaj leave of absence for three months with immediate effect from various group boards to enable him to focus on recent allegations, chief executive Laurie Dippenaar said yesterday.
18 March	Business Report	FirstRand commissions Maharaj inquiry FirstRand bank has appointed law firm Hofmeyr, Herbstein & Gihwala to conduct an independent inquiry into allegations recently made against FirstRand director and former minister of transport Mac Maharaj.
29 May	Business Report	FirstRand extends Maharaj's leave FirstRand has agreed to extend Mac Maharaj's leave of absence for a further two months while Deloitte & Touche

		reviewed the independent inquiry conducted by attorneys Hofmeyr Herbstein & Gihwala, Laurie Dippenaar, FirstRand's chief executive, said yesterday.
31 July	Business Report	FirstRand will report on Maharaj dealings today FirstRand was expected to make an announcement today concerning the allegations and possible effects to the group of its dealings with Mac Maharaj, the former transport minister and a director of FirstRand and Discovery Group, a spokesperson for the bank said yesterday.
1 August	Business Report	FirstRand won't duck Maharaj report A four-month independent inquiry into allegations of corruption against Mac Maharaj, a FirstRand non-executive director and former transport minister, has been concluded. However a decision on the report, such as whether Maharaj should stay on the group's board, will have to wait a little longer.
7 August	Business Report	Shaik, Maharaj answer corruption allegations Shaik claimed the payments were for Zarina Maharaj, the former minister's wife, for services rendered as a consultant on gender equality to Shaik's company for four years.
8 August	Business Day	Why FirstRand must release its report on Maharaj With Promotion of Access to Information Act as much information as possible must be available on request.
11 August	Business Report	No resignation from Maharaj, says FirstRand FirstRand had received no formal notification from suspended director Mac Maharaj, regarding his intention to resign or retain his position at FirstRand, it said yesterday.
14 August	Business Report	Maharaj resigns from FirstRand The board of FirstRand on Thursday announced it had accepted the resignation of former transport minister Mac Maharaj as a director. Maharaj said that given the current emotional debate being publicly waged around his personal affairs, his continued association with FirstRand might lead to further negative publicity for the Group.
15 August	Business Report	Danger of spillover reignites cooling-off debate The appointment of former transport minister Mac Maharaj to FirstRand's board of directors soon after leaving government has rekindled the debate on the merits of a cooling-off period before ministers, MPs or senior public servants take up employment in the industry they were dealing with in their portfolios.
15 August	Business Day	No plans to leave business sector Although former transport minister Mac Maharaj has quit the FirstRand board amid controversy over alleged payments made to him by Durban business Schabir Shaik, he has no plans to quit the business sector.
15 August	Business Report	Shaik coy on R100 000 payment to trust Mac Maharaj's close friend, Schabir Shaik, yesterday could not supply details of a mysterious R100 000 payment into the Maharaja family trust in 1996.
15 August	Business Report	Maharaj lashes out at Scorpion's sting A defiant Mac Maharaj yesterday lashed out at the Scorpions claiming that "someone" in the law enforcement agency was illegally "leaking" information about his financial affairs, causing great suffering to him and his family.
15 August	Business Report	FirstRand won't alter its practices The events leading up to the resignation of FirstRand non-executive director Mac Maharaj would not result in the firm reviewing its corporate governance practices. The group would, however, be more careful in checking directors' interests if those directors came from the government.

17 August	Sunday Times	More questions than answers FirstRand's guarded report on its investigation into Mac Maharaj's business dealings fails to exonerate the former transport minister.
17 August	Sunday Times	Maharaj's statement after the bank's inquiry From the outset I have motivated for and fully co-operated with the FirstRand inquiry.
17 August	Business Report	Cool off before cashing in Now that Mac Maharaj has packed his bags at FirstRand and left with his million-rand payoff to protect the bank's good name, we are getting hot under the collar about cooling-off periods for politicians and senior civil servants who cash in on their public service by taking lucrative jobs in related fields in the private sector.
17 August	Business Report	Mac's hit the road, his integrity still intact, despite the media's penchant for hype Sometimes I feel I am living in another world, not in South Africa.
18 August	Business Day	FirstRand has done itself and Mac Maharaj no favours with its limp-wristed inquiry into allegations that Maharaj, who resigned as a FirstRand director last week, took money illicitly from Schabir Shaik.
15 September	Business Report	FirstRand will show solid growth despite year of controversy After a controversial year, FirstRand should please shareholders when it reports its results tomorrow for the year to June 2003.
17 September	Business Day	Retail segment drives FirstRand's profit Controversies have no effect on operations, with corporate and newer businesses also showing growth.
2 November	Sunday Times	News mag beats bank over Mac ad FirstRand complained to the Advertising Standards Authority after noseweek magazine ran a radio ad saying the group had landed itself in a "billion-rand crisis" because of one of its directors, Maharaj. "To keep him on is as risky as it is to fire him," said the ad, on Classic FM in June. "Why? Well, for a start, some of the bank's top executives could just find themselves facing corruption charges if they are not very careful."

Themes common to the three case studies consulted for this research project were identified and are discussed in the following section. A comparative analysis between these themes and the literature was undertaken in order to identify similarities and differences. Interpretations and themes were grounded by linking them to excerpts from the interview text and to existing literature.

5.3 Themes common to all three case studies

The conceptualisation of these themes arose from a hermeneutic process of analysis. This involved a process of dialogue between the researcher and the text, empirical experience, interpretations and impressions (Rapmund 1996).

- The first set of themes describes the **form** of crisis communication - the foundation necessary to ensure effective communication with the media during the crisis-response phase when the crisis has attracted the media's attention and when the quality of communications issued could seriously affect the organisation's image.
- The second set of themes explores the actual **communication decisions** made by the crisis communicators consulted or the **content** of their media communications, using the situational crisis communication theory (SCCT or SCC theory) discussed in chapter three. This is the theory most relevant to this research because it provides a framework for examining the decisions and responses made by communicators during the crisis-response stage.
- The third and final theme shows that all of the crises examined ultimately resulted in positive outcomes, which provides evidence for the premise that a crisis, if properly managed, can be beneficial for the organisation concerned.

5.3.1 The building blocks for effective crisis communications with the media: The form of crisis communication

In all of the case studies consulted, certain factors dominated as being necessary components for creating successful crisis communication strategies with the media.

They are:

5.3.1.1 *Multi-disciplinary crisis communication team with access to management decisions and all crisis-related information*

It became evident from the case studies consulted, that it is imperative to select a crisis communication team that represents to a practicable degree the diverse and sometimes conflicting concerns and interests of all stakeholders and departments in the organisation – such as customers; institutional shareholders; government relations; the departments responsible for media communications; legal issues; human resources; operations and finance. This is important because decisions made by the organisation can have implications in the media. Senior executives need to be aware that anything they do or say and any decisions made, especially during crisis, will need to be carefully considered by the crisis team because of the possible ramifications of such decisions. The crisis team must have access to the senior executives responsible for running the organisation and to all crisis-related information – positive or negative, that may impact on the strategy adopted.

Having a multi-disciplinary team may create tension between members, but was demonstrated to be a necessary factor in guiding Standard Bank's strategy in the

media against the hostile bid by rival Nedcor. Having the input of an outside consultancy known for its strategies against hostile bids was vital in developing messages to counter-act Nedcor's justifications for the merger. This team, for example, advised Standard Bank to focus its messaging on possible staff retrenchments and lowered morale as an argument against the merger. This strategy won the Standard Bank executive team sympathy and support of the public, union and staff. By meeting on a daily basis throughout the Nedcor threat, the team was able to adjust its strategy as new information was acquired and was able to make decisions as to how to respond to journalists and media reports. The advisor to Standard Bank explained: *I believe that in a crisis, have a team. Don't have one or two people in a corner managing a crisis. Open it up. Get lots of people thinking about it and lots of people working on it so that you can bounce ideas and control mavericks.*

A multi-disciplinary team was also an important component in shaping Absa's communication strategy with regards to internet fraud. The customer care and media communications departments were eventually able to convince the rest of the crisis team that it was important for customers to be reassured even though, the advice from a legal standpoint was that Absa was not responsible for the fraud. The initial conclusion arrived at was obviously purely a business decision, based on the cost factor. Jonathan Zapiro, cartoonist, succinctly captured the public's response to Absa's preliminary hands-off, aloof stance, with an illustration titled: *Absa – how can we fob you off?* (The Star 2003:5). It was subsequently decided by the crisis team that the loss of goodwill would be more expensive than the estimated costs of the fraud. In every crisis situation this factor should be taken into

consideration. Had Absa continued with its seemingly non-compassionate stance in the media, as advised by lawyers and fraud experts, it would possibly have taken longer than transpired for the negative public reaction to subside. During his interview with the researcher, the head of media communication at Absa explained: *It took us longer than it should have to correct internet fraud and we spent R8 million on ads alone. After a shaky start, day after day, week after week, we had meeting after meeting to make sure we communicated the right message.* The head of media communication at Absa explained that because the crisis team had not been given all the relevant information pertaining to the crisis, in a communiqué sent out to journalists explaining the nature of identity theft it was stated that identity theft was a new global trend, whereas in reality, it has been around for the past 15-20 years.

FirstRand also made use of a multi-disciplinary team of lawyers and accountants to investigate the allegations made by the media. This was to ensure that the CEO had all the correct information at his disposal before making a public announcement and decision on the matter of the organisation's non-executive director. The head of media communication at FirstRand explains this in her interview with the researcher: *It's very important that you have your communications people as part of your inner circle and everybody agrees during that meeting in the morning of a particular day what we are going to say to the press, what we are going to say to the analysts, what we are going to say to the shareholders and let's make sure that we say the same thing to everybody rather than the merchant bank and the company then sitting and agreeing and then telling the PR people what to say. It doesn't work like that. The PR/Media team have to*

be part of that decision making process so that you can see if the merchant bank have a defence strategy and how can working the media or working the analysts support that on a tactical basis on a day-to-day basis and that's basically how it was managed.

The principal of having a multi-disciplinary team with a mandate to make strategic decisions has also been recommended in the literature (refer to 2.3.7). Angelopulo and Barker (2006) and Kaufmann et al (1994), for example, propose that the crisis management team should be comprised of people who are creative, knowledgeable of the business and are able to offer unique perspectives on resolving the issues. The healthy tension, particularly between legal advisors and public relations advisors is raised by Kaufmann et al (1994). In addition Angelopulo and Barker (2006) specify that the crisis team should also have the authority to make decisions and allocate resources. This finding is also reflected in chaos theory (refer to 3.4.2.2) which recommends that senior management form part of the crisis team as important decisions may need to be taken that may impact on various operational areas of the organisation (Bloom 2001). The necessity of a crisis team having access to all crisis information that could impact on decisions taken has also been raised by authors such as Mersham and Skinner (2002) and Augustine (1995) (refer to section 2.2.4). Mersham and Skinner (2002) contend that making decisions when only minimal, ambiguous or conflicting facts are available is dangerous. Augustine (1995) notes that organisations can misclassify problems in these circumstances, and that often the focus is on technical issues, at the expense of information on public perceptions (refer to 2.3.5). Chaos theory (discussed in section 3.4.2) recommends particular diligence

to public opinion in order to remain relevant to environmental dynamics (Edgar & Nisbet 1996).

5.3.1.2 Executive stress management

In all of the case studies reported on, managing the stress levels of executive management is clearly critical to the work of the crisis communicator. It is sometimes very difficult for executive management to realise that simply because they are in positions of power within an organisation, that they cannot always use this power externally to control journalists. The presumption of organisational executives that the media can and should be controlled and manipulated (Bloom 2001; Smith 2006) is illusory as the only time an organisation has complete editorial control of its messages in the media is if it pays for an advert or advertorial (Levine 2006).

The head of First Rand's media communication explains: *A major problem with crises – the really big challenge is to manage your own management. I mean, every time they see something really negative in the press, they go berserk and get into a frenzy and want to phone and shout at everybody. Now you've got to manage that. You've got to calm them down. You've got to get them to see sense. You've got to get them to stick to the rules and the plan and the script because often they don't want to. Often they go mad if they read something and that is another part of crises: do not get sidetracked and do not let your management get sidetracked and do not let them lose the plot. You know, a lot of these very senior guys are control freaks. That's why they are what they are and*

the thing they find so unbelievably difficult is the press. It's because they're not in control of what's going to appear the next day in the press and that's the thing they hate. They hate that feeling of powerlessness because they're powerful people and they don't like to feel powerless or at the mercy of somebody and that's a serious problem. Just make sure they focus on the important stuff and never be knee-jerk. The moment you're knee-jerk, you're dead in a crisis. The moment you have a thought and act on it, you're in serious trouble.

The stress executives experience during the crisis-response stage, and of being unable to control the reportage of the media can result in them taking matters into their own hands. They may ignore the advice of the multi-disciplinary team and upset the strategy, as was, in the opinion of Standard Bank's crisis advisor, what happened at Nedcor with negative consequences. The CEO of First Rand also, on one occasion, went against the recommendation of his advisor and chose to tackle a journalist known for his acerbic, sometimes aggressive stance against big corporations. The head of Absa's media communication explained how he had to convince executives not to react to every negative newspaper article with threats to editors should they not withdraw certain statements. *We do not control the media. This is a democratic society. If you pay for advertising you can control every word, but not with editorial. It is only if the journalists get facts wrong that one can take them on. Otherwise management have to remain calm and ride the media wave of negative publicity.*

Based on the comments made by crisis communicators in the case studies, it is advised that senior executives attempt not to take every media comment

personally and that they should make every effort to try to understand how the media works. In crisis management, it is necessary that an organisation's principals are fully aware of the power of the press and also that that power frequently devolves to an individual journalist, as was evident in the First Rand case study (refer to annexure C for more details). In many instances, the journalist may not be of a very senior level. It is for this reason that crisis communicators should actively assess the character and style of the journalists with whom they are in contact and adapt their communication style accordingly.

The head of media communication at First Rand gives the following pertinent advice: Accept that you are not going to win every single battle in the press, especially in a bid. They (the other side) will have their day in the press. You then have to accept that it's their day in the press. You then have to work very hard to make sure you have your day in the press. So, even though you're not going to win every single skirmish, you've got to stick to your battle plan, win the key ones and hope that you come out at the end clean. Don't pick up the paper every single day and stress about what's been written and then have a knee jerk response. There might have been some really stupid articles in that week that you might have really wanted to respond to in a knee-jerk fashion but your thinking gets muddled as soon as you do that. This aspect was not specified in the literature reviewed on crisis communication, which suggests that it has not received prior consideration. It was however, clearly critical to the crisis communicators interviewed for this research. It has therefore been included as a fundamental factor in the proposed conceptual model described in chapter six.

5.3.1.3 Key messages and consistent messaging critical

What is evident in the Absa case study is that in the early stages, each of the spokespeople appeared to communicate different messages to the public, causing confusion and leading to negative perceptions about Absa's handling of the crisis. For example, one spokesperson stated that identity theft was a new trend in international fraud, while another explained that it had been around for some years. In stark contrast, Standard Bank's spokespeople kept to the prepared messages from the outset, as did First Rand's, for the most part, which stood them both, respectively, in good stead. The head of media communication at First Rand explains: *You've got to stay really focussed on what you've agreed in the war cabinet that morning, what your tactics are, and keep it very simple. We kept falling back on the expression that we're following due process and the one thing I'll say about the Mac crisis, is that we had a script and we stuck to it. Everybody stuck to it. But it should be remembered that if the situation changes or the goalposts are removed, reassessment of the tactics may become necessary. But the messages should make sense, be accurate and have some consistency.*

This principal has been referred to in the literature (refer to section 2.3.5 and 2.3.7.2) and was verified by this research. Mersham et al (2001), for example, advise against the use of jargon to ensure clear understanding of key messages by the public and Calloway and Keen (1996) stress that communication should be based on facts, not speculation, in order to ensure credibility and consistency of messages to the public. Coombs (1999b) and Kaufmann et al (1994) also stress the importance of uniformity and reliability of messages to avoid public confusion.

5.3.1.4 Active response

A proactive strategy to engage the media during the crisis proved effective, particularly in the cases of First Rand and Standard Bank, because the CEOs were not, prior to the crises, known to the media on a personal basis. By opening their doors to the media, inviting journalists for one-on-one meetings and proactive media conferences, the respective CEOs were able to build the trust of the journalists. At the time, the take-over bid was considered to be one of the most exciting stories in financial circles. The head of the specialist consultancy, who had been brought in by Standard Bank to take advantage of the atmosphere of public interest, explains Stanbic's defence: *The second tactic was to get very aggressive in the press from a proactive perspective so we set up press conferences and press briefings to try and tell the story in a way that would be more exciting for the press. We got very proactive, we didn't just sit and wait to be smacked around by Nedbank – we went back at them quite quickly. Try and set the agenda from your perspective rather than constantly be responding to somebody else's agenda.* The in-house head of media communication at Standard Bank explained that to be proactive with journalists, it is necessary to understand how the media works and what it is they want. In this way, Standard Bank was able to use the media to its advantage to influence public opinion to its side. He explained: *You've got to understand what the journalists are looking for. You've got to understand their time constraints, their deadlines and what kind of facts they need for their stories. You can even use the media to your advantage – to get facts out to your public. The media helped us with the Nedcor bid. They helped us to tell our side of the story and swing the public attention in our favour.*

This principal of being proactive with the media and using the media as a tool to reach the public has been highlighted as an important strategy in many texts dealing with crisis communications (refer to section 2.3.5) and was confirmed during the interviews. Birch (1994), Darling (1994) and Fearn-Banks (2002), for example, advise that the organisation in crisis should quickly establish itself as the single authoritative source of information, to avoid speculation by journalists.

5.3.1.5 *Flexibility of strategy and alertness to changes in the environment*

The research results show how the crisis team must remain alert to changes both within and outside the organisational system. In this way the team can be responsive and seize opportunities to enhance its strategy and the effectiveness of its communication to the media.

For example, as soon as Standard Bank's management made the strategic decision to replace its management team quite early on in the crisis, the crisis communicators used this as an opportunity to tell a new story about Standard Bank to the media. The new team was not burdened by the legacy of past mistakes and a picture was painted of a vibrant executive going forth to conquer the foe, which in this case was the hostile bidder, Nedbank. The crisis team at Standard Bank also used the uncertainties and fears expressed by staff as a tool to support management in their fight to regain control of Standard Bank. In contrast, Nedbank seemed to depend on its irrevocable stock reserves of goodwill that it had from shareholders. According to the crisis advisor to Standard Bank, Nedbank over

relied on their currency and did not apply themselves to re-energising their messages to the media. Nedbank was thus inflexible in its approach. Being flexible in strategy means that crisis communicators should not stick rigidly to a crisis communications plan at all costs. The teams consulted daily as to the best tactics to follow, given the changing circumstances. As the crisis advisor to Standard Bank explained: *We didn't have a huge big communication strategy. We used to have early morning meetings where the advisors and us and the company – the little war cabinet – would agree on a daily and weekly basis how we were going to manage the events of the day. So we didn't have a highfaluting written strategy. It was very practical. It generally is in that kind of situation. I mean we didn't write lots and lots of big documents that said we're going to do this. It was day-to-day tactical.*

In the case of the identity theft crisis, Absa kept its feedback loops open and thus quickly became aware of the negative publicity and reaction of clients about the Bank's initial stance that implied that it was not concerned about the victims. By nimbly changing its strategy and promising restitution in proven cases of identity theft, the Bank regained some lost ground in the publicity stakes. Absa also took advantage of the arrest of the "hacker" through the excellent investigative skills of the South African Police Services and Absa's specialist forensic team, by giving the journalists all the details for a new angle to the story.

In its handling of the Mac Maharaj debacle, First Rand kept the channels of communication open with the media and constantly reported back on the progress made with the investigations. In this way it was able to monitor opinions, and keep

a check on them, by responding accordingly. The head of communication at First Rand explains: *It should be remembered that if the situation changes or the goalposts are removed, reassessment of the tactics may become necessary. But the messages should make sense, be accurate and have some consistency.*

This principal of remaining alert to changes in the environment, in order to be flexible in approach, is fundamental to chaos theory (Comfort 1994) (refer to section 3.4.2) and was confirmed through the research participants. Chaos theory warns that over-reliance on a plan or an analysis of past events could be detrimental and that the focus should be on building an innovative, creative and spontaneous approach to strategy (Bloom et al 2002). This does of course rely on the organisation remaining connected to information and intelligence from its members and the environment (Bloom et al 2002; Edgar & Nisbet 1996).

5.3.1.6 Overall attitude of organisation important during the crisis

According to the Standard Bank's advisor, during the crisis, Nedcor appeared to be arrogant, while Standard Bank was humble, admitting its faults. Standard Bank and First Rand each had open door policies with the media, were not defensive and were proactive in dealing with the journalists. This seemed to earn them the respect of the journalists. A modest attitude was crucial in winning the media over to Standard Bank's side. Journalists react adversely to arrogance as the advisor to Standard Bank explained: *We were honest in the sense that in every engagement with the press we were very careful to always talk about the things that we had done wrong in the past, so we were honest and humble which they found*

appealing. It wasn't like we were aggressive or defensive. Nedbank made some terrible mistakes. I mean, they were hugely arrogant.

Absa's initial conceited attitude appeared to irritate journalists, and disappoint and anger clients, in that the organisation was perceived as showing no responsibility for its clients. In the case studies examined, the banks with the least arrogant and least defensive attitudes appeared to be reported on in the most favourable way. The head of media communication at Absa warns: *It's important to remember that it is the journalist's opinions that will be printed in the newspaper the following morning.*

What is notable, is that even though Standard Bank and First Rand's respective CEOs had not built up good relationships with the media prior to the crisis, as suggested by the crisis planning literature, they managed to use the opportunity of their respective crises to do so. This is because the attitudes of the spokespeople during the crises were open, humble and approachable. Spokesperson likeability is critical and Standard Bank and First Rand CEOs fell into that category. As the head of media communication at Absa said: *If you do not have prior relationships with the media, the only thing you can do is to be honest, try and come across as nice as possible. In this way try and build the relationship.* He also believes that even if an organisation has a good relationship with the media prior to a crisis it is the actions and attitudes of the organisation **during** the crisis that dictates the nature of publicity received. This certainly seemed to be the case at Absa, as explained by the head of media communication: *We did have a good relationship with the media, but remember, once you face a crisis and you've been negligent or*

if you've been perceived as negligent, that relationship with the media goes out the back door. When it comes to the crunch, the relationship between the media and the bank is basically adversarial. The journalist's job is to find news stories and you can be pretty sure that it won't be good news that he or she is looking for. It's bad news that sells newspapers.

The principal of attitude has been alluded to in the literature (refer to 2.3.5). Augustine (1995) for example, stresses that an organisation's response should reflect concern for victims. Much of the research is focused on diligent image building in good times, an important component of Horsley and Barker's (2002) stage model of crisis (refer to 3.3.2.3). Puth and Steyn (2000) also advise the merits of engaging with stakeholders such as the media, prior to a crisis (refer to section 2.37). However, no specific reference has been made to the negative effects of arrogance, which was clearly highlighted in the case studies examined for this research. These findings also suggest that the conduct of the organisation **during** a crisis supersedes any prior relationships with journalists, the latter being the primary focus of the mentioned authors (Puth & Steyn 2000); Horsley and Barker (2002). The case studies proved that an organisation's attitude is linked to an organisation's values (Hale et al 2005; Foster & Snyder 1983). For example, Absa's legal values were initially the guiding force during its crisis. On the other hand, companies such as Johnson and Johnson, placed its users top of the value chain (Foster & Snyder 1983 – refer to 3.4.3.4). This brings a fresh perspective to the field of crisis communication.

Included in this discussion on attitude are the following two subsections: Honesty/trust and a customer first approach.

5.3.1.6.1 Honesty/Trust

An additional part of having a good attitude is, as all the communicators interviewed for this study agree, the importance of being honest with the media. This helps to build trust. With regards to First Rand's CEO, Laurie Dippenaar, the head of media communication explains: *They trusted Laurie because Laurie wears his heart on his sleeve and he's a very open and transparent person. He's got a reputation of being straightforward and honest and it's given him a good standing with the press.* That was why, even though FirstRand could not give the full report of the findings of the independent investigation into the alleged misconduct of its board member to the media, (because of legal issues), the media, on the whole, accepted it. They knew that Laurie would have given it to them if he could have, and appreciated the fact that he gave copies to other independent parties such as the South African Reserve Bank. The head of media communication at FirstRand explains the predicament: *But then we had to come up with all credible reasons of why we couldn't and you know companies often duck and dive behind sub judice and client confidentiality and all that sort of thing, they do, it's one of their favourites. So that didn't really wash with them but you know what, to a certain extent, you have to rely on whether they trust you or not. Yes, they were irritated, because they wanted the story, but fundamentally, in the end they stopped hounding us because they trusted Laurie because Laurie is a very open and transparent person. In the end they just had to stop and give in and accept that*

what they got was what they got and we took the high ground by saying, well, we've given it to the Scorpions, the SRP, FSB, the Reserve Bank, they've got the full thing.

In response to the researcher's question as to how the head of media communication at FirstRand deals with an issue when she cannot give the media any details or cannot be honest about for various reasons she said: *You tell them something. At the end of the day they just want to write about something. You might not be able to tell them something that you know but you can tell them something that's not a lie, but that gives them something to say because fundamentally that's all they need to do. They need to say something. You don't lie to them, but you find a way of saying something to them that is – it's not telling them what's really going on, but it's telling them something that they will never look stupid if they write or print it and it solves their problem, the fact they they've got to fill column inches. They've got to look as though they know what's going on so you find something to tell them. But never lie to them. The day that you lie to them, is your downfall. Better to say that I don't know or I actually know but can't tell you. But don't lie. Often to say, I don't know, is a lie, so best not to say that either, because that can also come back and hurt you. So stay honest. Honesty is the best policy, like in life.*

Honesty and trust have been raised in the literature (refer to section 2.3.5) which is confirmed by this research. Authors such as Fink (2005) stress the importance of honesty in communication with the media and warn that without it, an organisation's media and public credibility is at risk, a situation that will serve to

escalate the proportions of the crisis. However, there appears to be debate about the levels of disclosure required without unnecessarily damaging the image of the organisation or creating financial liability for the organisation (refer to section 2.3.5).

5.3.1.6.2 Customer first approach

Allied to the principle of attitude is the recommendation that the financial organisation structure messages with the audience in mind. As was evident in the case study on Absa, it was necessary that the organisation showed its care and concern for the victims of the internet crisis, more than anything. The fact that it practically ignored the interests of its clients at first and even tried to shift the blame to the clients, created a crisis within a crisis for the organisation. In Absa's case, the public were concerned and fearful about the possible theft of their hard earned money, and required reassurances from Absa. Absa's head of media communication explained: *We first made the mistake of blaming the customers and then we had a crisis on a crisis. You must be very careful. Lesson number one for Absa was you never blame your customers. Never build a wedge between your stakeholders and yourselves when you have a crisis – rule number one. Rule number two – refer to rule number one. The media can be extremely unforgiving if you blame your customers. Legal issues are legal issues, but in an emotive case such as this, you don't base your crisis communications on legalities. People don't want to know about legalities because they don't understand it.*

Spokesperson likeability was found to be a critical factor in all of the case studies examined. Absa's head of media communications explained that during a crisis, customers want reassurance from a top management person, preferably the CEO. He said: *As a general rule of thumb, the policy should be to put a face to the crisis. Not simply the issuing of a press statement. Have a person talking to the people – on television, radio, in the press. Call a press conference. A face, a human person at the end of the day is worth much more and I think in hindsight, for Absa's internet fraud, if the CEO was unavailable we should have had a face, a friendly, good, trustworthy person talking to the public at large. Not your security expert because they are militarists, not your technical expert – you need a communicator, a facilitator, you need to give the people a warm and fuzzy – a message with integrity.* He explained that when people have a problem, they want to speak to the boss, not the secretary. In retrospect, he thought that Absa's CEO should have gone on record as saying something like: *Guys, I'm in charge of Absa bank and I've heard about this whole thing and let me tell you I'm deeply concerned for your safety if this is the truth. I give you my promise that I am doing everything possible to protect you. I'm the CEO and I will make sure it will be done.*

Spokesperson likeability has been alluded to in the literature (refer to section 2.3.7.2) and was certainly confirmed by this research. The spokesperson as the representative of the organisation needs to convey a favourable attitude of trust, honesty, customer concern and integrity (Mersham & Skinner 2002). In all of the case studies examined, except for Absa, the spokesperson was the most senior person in the organisation, that is, the CEO. The decision by Absa not to use its CEO was clearly held by Absa's head of media communication to be ill considered.

Although Fearn-Banks (2002) and Mersham and Skinner (2002) also recommend that the CEO become the spokesperson for the organisation in a serious crisis, Irvine and Millar (1998:88) argue against this. Irvine and Millar (1998:88) suggest that if the CEO fails to project a compassionate and convincing image, it would be difficult for the organisation to recover its reputation. A point made by Engelhardt et al (2004) and Drukenmiller (1993), that was also confirmed by this research, is that whoever the spokesperson is for the organisation, of vital importance is that they remain accessible to journalists throughout the crisis. Refer to section 2.3.7.2 for a full discussion in this regard.

Another example of a customer-first approach was that Standard Bank designed its messages to speak to the hearts of the public. It painted a picture with words of an organisation on its way to success; that if it was taken over by Nedbank, job losses would occur and that many years would pass before the organisation could provide its clients with good service, as most of the attention would be on merging the two entities. It spoke in language that its clients could understand and addressed issues that would affect them personally. Simplicity and applicability of message was mentioned by all of the spokespeople interviewed as important. Absa's head of media communication stresses: *The information should be clear and simple. Not fact overdose. One, two or perhaps three facts is all most people can remember.* Simple and easy-to-understand phrasing of messages without jargon, recommended by Absa's head of communication, has also been advised in the literature (Mersham et al 2002) (refer to section 2.3.5).

Scholars such as Mersham et al (2001) and Augustine (1995) also stress the importance of putting people first and of demonstrating concern, but very often lawyers tend to be more concerned about avoiding liability for the organisation in crisis (Kaufmann et al 1994). Once liability is admitted an organisation is legally liable to compensate victims for damages and may not be in a position to withstand the costs of such actions (Kaufmann et al 1994). In these circumstances Englehardt et al (2004) suggest that the organisation express compassion, without blame. Like apologies, compassion address public concerns by acknowledging the victims, but it avoids the liabilities associated with apologies (Fitzpatrick 1995, Marcus & Goodman 1991, Tyler 1997) (refer to section 2.3.5 for full discussion on this).

5.3.2 The content of communication: an examination of communication decisions using SCCT terminology

This section examines the communication decisions made by the crisis communicators who participated in this research in the light of strategies and tactics suggested by the SCC theory discussed in section 3.5.1. Some of the tactics/strategies employed by the crisis communicators in this research verify those presented in the SCC theory and others highlight instances where SCCT strategies should be amended or used with caution. Additional successful strategies employed by the participants are not included in the SCC theory and can thus be presented as new discoveries made by this research. As pointed out in section 3.5.1.4, an organisation's values (such as whether it adopts a customer-first or legal stance) are at the heart of the decision-making process, and these determine the communication decisions made.

5.3.2.1 Distance strategies/tactics (discussed in section 3.4.3.3)

Distance strategies are aimed at weakening the link of the organisation to the crisis to reduce negative public perceptions (Coombs 2004). By applying a distance strategy, termed a **justification tactic** (Coombs 1995:453), Absa sought to minimise injury as a result of identity theft and clarified what it considered to be a misrepresentation of the crisis event. Absa issued a media release that stated that identity theft was limited to three cases and that a total of about R530 000 had been stolen. Absa also tried to communicate that the term “hacker” used by the media was incorrect as the Bank’s systems had not been infiltrated (Smith 2006).

These tactics did not appear to work and continued to feed public perception that Absa was trying to shift the blame for identity theft onto its clients. Perhaps this was because it appeared as if Absa was not taking the crisis seriously enough and was not putting the interests of the clients first. For the three clients involved, R530 000 was considered to be a great deal of money. It may have appeared as if Absa was downplaying the severity of the crisis, rather than putting it into context. The result of employing a justification tactic in Absa’s case, suggests that an organisation wishing to use this tactic should be very measured in its wording so as not to appear callous about the victims and also not to appear defensive. Crisis managers may need to take into account that statements of minimisation may be treated with scepticism.

A distancing tactic, not specified in SCCT, but used effectively by Absa was the conceptualisation of identity theft as an **industry issue** – a problem faced by all the banks, not just Absa. This strategy served to diffuse the negative publicity

being experienced by the Bank. The other banks were then forced to react to identity theft and admitted to having experienced a few such cases themselves, so that it was not just Absa alone that was dealing with this problem. This distancing tactic is not part of the SCC theory and will be included in the proposed model in chapter six because of its successful application by Absa's crisis communicators.

First Rand's response to allegations concerning its non-executive director can also be analysed using the SCCT. First Rand's crisis response, which proved justifiable, was to **distance** itself from the alleged misdeeds of its non-executive director by ordering an **independent investigation** into the allegations made. It showed that First Rand was prepared to take responsibility for investigating the issue and was not prepared to make a judgement call until all facts were collated. The independence of the investigation lent a certain public credibility to its findings that could not have been possible had the investigation been conducted in-house. The in-house findings would no doubt have been criticised for bias, regardless of the facts. This strategy is not mentioned in the SCCT, but because of its successful application by the crisis communicators interviewed for this research, will be included in the proposed conceptual model in chapter six.

First Rand communicators were also reasonably successful in their **distancing strategy** of ensuring that the spotlight was focussed on only one member of their board: Mac Maharaj. As soon as journalists began to make allegations about possible mismanagement about other members of the First Rand board, the communication was quick to ring-fence the problem and localise the attention to Mr Maharaj. This tactic is described as **scape-goating** by SCCT (Coombs 1995:453).

The intended message is that the organisation cannot control the crisis if some third party is responsible for the crisis or has acted without organisational sanction (Ihlen 2002). Because scape-goating has a negative connotation, this tactic will be referred to as **localising attention** in the proposed model. This is because the tactic can be used effectively without necessarily putting the blame on a selected person or institution. For example, at no point did First Rand accuse or denigrate Maharaj in the media. They just made sure that the attention was on him and not the entire board or governance structure of FirstRand, the reputation of which some journalists appeared to be trying to tarnish along with Maharaj.

5.3.2.2 Ingratiation strategies/tactics (discussed in section 3.4.3.3)

Ingratiation strategies are designed to associate the organisation with positive events to win public approval (Coombs 1995:453). Using the terminology of SCC theory several new ingratiation tactics not mentioned by SCCT came to the fore in the cases consulted.

One of the tactics mentioned by the crisis communicators interviewed was **third party endorsements**. These are statements made by people or companies outside the organisation – seemingly independent parties. These statements can add legitimacy to an organisation's messages. Sometimes it happens naturally that the media will ask a third party for a comment on a crisis, but this process can also be encouraged by crisis communicators. Third party endorsements are not included in the SCC theory. For example, Absa encouraged some of the independent research houses to evaluate Absa's internet banking security systems

and make public statements about its credibility during the internet fraud scare of 2003. Online security experts were also contacted to get their opinion on how customers should protect their computers from Identity theft software. These statements, which were eventually published in the media, served to dilute negative publicity for Absa. The third parties involved also welcomed receiving free, unpaid for publicity, which helped to boost their images as Internet/research specialists.

In a similar vein, Standard Bank enlisted scholars and researchers (respected third parties) who had investigated hostile take-overs worldwide, to prepare a credible defence. Following the scandal involving former Transport Minister and non-executive director, Mac Maharaj, First Rand deemed it necessary to demonstrate unequivocally that a full investigation, by a reliable source, into the alleged misconduct of its non-executive member had been carried out. This was hampered by the fact that legal considerations prevented full disclosure of the findings to the media. The evident need for transparency was satisfied by **presenting the findings to regulatory bodies (respected and independent third parties)** such as the South African Reserve Bank and the Financial Services Board. The fact that the investigations were undertaken by a respected legal firm, and not by Standard Bank itself, lent the findings a credibility and respectability that an in-house report, (which would undoubtedly have been criticised for bias – regardless of the facts), could not.

First Rand also employed the ingratiation strategy (Allen & Caillouet 1994) in its messaging, by reminding the public of its commitment to corporate governance,

and by asking the public to evaluate its actions during the crisis. **Ingratiating statements** employed by spokespeople after the internet hacking crisis to demonstrate Absa's commitment to internet safety included: Absa's internet banking complies with the highest standards of safety possible (Smith 2006). Standard Bank also applied SCCT's ingratiation strategy by referring to the good progress Standard Bank had made, and was planning to make, without Nedbank's ownership.

Another unique ingratiation tactic employed by Standard Bank was to offer the media **a new angle to the crisis story** to write about. The angle should be favourable for the organisation's image. This ingratiation strategy is not mentioned in the SCCT, but was found to be useful to the crisis communicators interviewed, and will form part of the proposed model in chapter six. To summarise (refer also to 5.3.1.5), Standard Bank successfully gave the media a different slant on the crisis to investigate. The appointment of a new CEO and management team, much younger than the previous team and without the legacy of past mistakes, interested the media who were looking for new permutations to the story to keep it alive in the headlines. Knowing that journalists need new angles from which to write, when a large crisis hits the public space, should encourage crisis communicators to think creatively and use the opportunity to promote the organisation, as did Standard Bank. Absa too found a new story to take to the media, when the alleged perpetrators of internet fraud were arrested through the skills of the South African Police Services and Absa's forensic team. This was a good news story for Absa as it gave the impression that the problem had been resolved and that Absa was a proactive part of this resolution. This tactic is often dependent on the operational

strategies adopted by an organisation such as Standard Bank's decision to appoint a new, younger management team (refer to Annexure B for additional details).

Standard Bank also employed a **transcendence tactic** (part of ingratiation strategy) in its attempt to win positive media support for its defence against the hostile bid from Nedcor. It worked on the assumption that the public shared its values in the larger context of competition in the banking industry. Its argument was that job losses would occur as a result of the merger and that the merger would reduce competition in the sector. The South African government has a strong agenda to create jobs and improve skills, and Standard Bank's communicators took full advantage of this political context to further its arguments.

5.3.2.4 Mortification strategies/tactics (discussed in section 3.4.3.3)

Mortification strategies are designed to publicly associate the organisation with characteristics or actions positively regarded by stakeholders (Coombs 1995:453). SCCT highlights the importance of perceptions that the public have of the organisation and advises that these perceptions be taken as fact. The SCC theory can help communicators decide how to shape their responses in the media according to the amount of blame/responsibility the public perceives the organisation to be responsible for.

In Absa's case, the public generally attributed blame for identity theft to Absa. Their perception was that Absa was responsible. Even though Absa had a sound, trusted brand, it was recovering from bad publicity concerning an online offer made

to the public (for free internet access), which was withdrawn two years prior to the identity theft crisis. Given this context, Absa's response, according to SCCT, should have been immediately to reassure customers and to accept responsibility for not having educated consumers about identity theft. In other words, Absa should have immediately chosen a mortification tactic described by SCCT (Coombs 1995). As soon as Absa changed its messaging to reflect this strategy, the tone of its media coverage improved. While the advice the Bank received from its lawyers was that it was not legally liable for refunding money to its clients who were victims of identity theft (because it is the clients' systems that are infiltrated, not the Bank's), the organisation realised that given the situation, extreme anger on the part of clients and reassurances from other banks, warranted adapting its messaging and appearing more compassionate. It even promised to refund the money in proven cases of identity theft. This mortification strategy is termed **remediation** by SCCT (Marcus & Goodman 1991; Sharkey & Stafford 1990). Another mortification tactic termed **rectification** involves taking action to prevent a recurrence of the crisis in the future. Absa used statements indicative of mortification strategies designed to show that the organisation was making sure the problem did not reoccur. We have accelerated our planned roll-out of safety features (Smith 2006). The Bank was also quick to convey that its security systems were top class and it offered free anti-virus CDs to customers to protect their computers. It also provided educational information to customers about how to safeguard their systems from unsolicited access. These **rectification tactics** gained favour for Absa in terms of publicity and helped rectify the damage its earlier stance engendered.

5.3.2.5 Suffering strategies (discussed in section 3.4.3.3)

Suffering strategies are designed to elicit sympathy from the public for the organisation by portraying the organisation as an unfair victim (Coombs 1995:453). A suffering strategy employed by Standard Bank, not included in the literature on SCCT, which will be referred to as an **emotive tactic**, was to get staff to articulate their views on the impending take-over and fears of possible job losses, should the merger be approved by the Competition Commission. The crisis communicators organised a journalist press shoot of staff wearing T-shirts and hanging banners at the head office with wording deriding the merger, such as “Don’t let the big green (ie Nedbank) take over the big blue”(Standard Bank). This also gave the media a new story to the crisis – one that worked in Standard Bank’s favour. This tactic, because of its success in Standard Bank’s case, will be included in the proposed model. Standard Bank was able to elicit sympathy from the public and provided relevant information as to why it should not be taken over by Nedbank. This emotive technique proved successful under the circumstances.

5.3.3 Positive outcomes/organisational changes

The crisis forced Absa to roll out a programme of security enhancements to help clients to protect their identities on the internet. Before the crisis, Absa was not really perceived as innovative or technologically advanced, but the Group’s response to the crisis has put its security systems in line with world class standards. This is clearly an example of how a crisis can be positive for an organisation’s image. According to independent research house, Lafferty (2003),

Absa's security measures have been ranked by experts as being amongst the best in the world. Although the crisis presented a public relations challenge for Absa, it spurred a renewed focus on internet security and the rules governing the industry. The banks became more proactive in advising clients of the latest trends in security. The average online banking consumer had been ill informed on security matters until then. Following Absa's lead, other banks were also forced to make security a priority. In addition, Absa was forced to re-learn the valuable lesson that the customer must come first, no matter what the crisis event entails.

Standard Bank also experienced positive organisational effects from the crisis unlike its rival, Nedcor. It appears that Standard Bank has gone from strength to strength since the crisis. Although Stanbic seemed to make all the right strategic internal business decisions during the crisis, according to its advisor, it had not been working on its relationships with the media, shareholders or analysts prior to the crisis. The crisis seemed to spur the organisation to re-think its communication strategy. It recognised the value of having good media relations through the crisis and has since worked consistently to engage the local banking journalists on a regular basis. Nedcor, in contrast, had been doing all the necessary things with regards to relationship building with the key stakeholders – media and analysts, but making the wrong strategic business decisions and, since the crisis, these decisions have been exposed and the organisation, once the darlings of the media and the industry, appears to have lost favour. In a retrospective review of the crisis, Candy (2005) explains: *When Nedcor announced its bid for Standard Bank in late 1999, many people believed it was the end of Standard Bank, which at the time was trading at around R19. Six years later the bank has survived a hostile*

takeover attempted, seen its share price jump almost four fold and, pipping another banking giant FirstRand to the post, is the sixth largest stock on the JSE with a market capitalisation of R93bn. By contrast, Nedcor has, since losing the merger bid, fallen into disrepute. Once the darlings of the sector, the Group seems to have made one strategic mistake after the other. Its CEO at the time of the merger bid, Richard Laubscher, has since left the Group and a new team at Nedcor headed by Tom Boardman, is currently trying to turn the company around. Although now the poor cousin of the South African banking community, Nedbank once ruled the roost trading as high as R163 before falling ignominiously from grace. This fall was precipitated by an ill-advised hostile bid for Standard Bank and a disastrous involvement in Dimension Data shares. At the end of 2004, the group announced a three-year plan designed to clean up its balance sheet and streamline the business.

Judging from the media coverage received, and from the position in which First Rand is in today, the Maharaj crisis of First Rand was managed constructively. In fact, so successful was it, that Laurie Dippenaar, chief executive of FirstRand, was a contender for the 2005 Deloitte Good Governance Awards. This success can be ascribed to a policy of transparency, availability and honesty on the part of the spokespersons concerned. This strategy worked favourably even though Dippenaar did not have a significant relationship with the journalists prior to the crisis. It seems that no matter how bad the various crises may have appeared at that time, the banks in question have largely recovered from any negative publicity that ensued.

The literature emanating particularly from the progressive systems approaches to communication such as the chaos theory suggests that a crisis can be beneficial to an organisation (refer to sections 3.2 and 3.4.2) and the case studies provide evidence of this. Advocates suggest that instead of resisting influences that can, in traditional terms, be viewed negatively as a crisis, an organisation can use information sourced from the environment and its members to enhance its operations and improve (Murphy 1996; Bloom et al 2002).

5.4 Conclusion

The findings of the case studies were organised into themes and compared to current literature on the topic. Several new crisis communication tactics were discovered that are not included in the SCCT literature. These include: the ingratiation strategies of third party endorsements, providing the media with a new angle to the crisis story, and the use of emotive arguments to persuade the media to perceive the organisation in a favourable light. The distancing tactic of making the crisis an industry issue and ordering independent investigations into the matter also emerged as a new tactic not included in the literature.

Other findings from the case studies, not specified in the literature included the need to control executive stress, which emerged as a necessary factor in ensuring effective crisis management. The importance of an organisation's attitude during a crisis was found to be more important than good relationships with journalists prior to a crisis. Arrogant and self-serving statements without consideration for victims were shown particularly to have negative consequences in terms of media

coverage. These strategies and principles should form part of a comprehensive crisis communications strategy to the media.

Other observations from the case studies confirm the existing literature. These include the need to have a multidisciplinary crisis communications team with access to management decisions; the creation of key, consistent messages; proactive responses and a flexible strategy which is responsive to changes in the environment. In all the case studies, the crises led to positive organisational changes which suggest that crises can indeed be viewed as opportunities for beneficial restructuring and change as proposed by progressive approaches such as chaos theory. The research shows therefore that crises do not necessarily have to be regarded as negative events. By managing the crisis and its media communication competently, positive outcomes are possible.

Chapter six combines the findings of the case studies discussed, together with elements drawn from the literature review into a proposed conceptual model for communication to the media during a crisis.

CHAPTER SIX

A CONCEPTUAL MODEL FOR ORGANISATIONAL STRATEGIES OF CRISIS COMMUNICATION WITH THE MEDIA

6.1 Introduction

This chapter represents a culmination of the literature study and the research undertaken (as discussed in the previous chapters), by proposing a conceptual model which can be used by communicators to make strategic decisions during the crisis-response stage. The model can assist an organisation to protect its image during a crisis in the following ways:

- Convince the media that there is no crisis (in the case of unfounded rumours);
- Encourage them to view the crisis in a less negative light by acknowledging the organisation's interpretation of events.
- Influence the media to see the organisation more positively through the effective management of the crisis.

The model recognises that no two crises are identical and that no single crisis communication strategy is going to resolve every problem. However, given the short time frame for making communication decisions, which is generally endemic to crisis situations, this model is intended to assist crisis communicators in their task of communicating to the media.

This model is of course based on the assumption that communication to the media is just one element of a crisis communication plan that takes into account

communication to shareholders, government, analysts, staff, interest groups and customers. Communication to the media is given significance because of its value in dispersing information, its critical role in shaping public opinion and because the media intrude themselves upon a crisis situation.

A significant part of crisis management is devoted to detecting and preventing a crisis proactively because the best crisis is the one that is avoided (Coombs 1999:125). However, according to Coombs (1999) an organisation cannot avoid, prevent or prepare in advance for all possible crises. The success of a crisis management effort is heavily dependent on what an organisation says and does after a crisis commences – termed the crisis response (Benoit 1997). It is acknowledged that the crisis response phase puts any organisation's normal communication systems and processes under enormous additional pressure. Hale et al. (2005:131) therefore suggest that communication models can prove most beneficial under such circumstances. *An awareness of the steps normally followed and challenges faced in such a process can help crisis managers respond quickly and rationally once a triggering event occurs. The ultimate end may prove to be not just improved communication within the response stage of the crisis but also a reduction of the damage from the crisis.*

Bloom (2001:85) states: *Inventing a response to a crisis as it breaks cannot be done to the best of a public relations consultant's advantage under the pressure of events.* Given this state of affairs, a set of guidelines could help crisis communicators to formulate responses to the media during a crisis. The next section describes a proposed conceptual model for this purpose.

6.2 Conceptual model for effective crisis communication with the media

The conceptual model proposed is designed specifically for the crisis response stage to help crisis communicators communicate effectively with the media.

- Section 1:
The foundation
- Section 2:
An analysis of a crisis situation
- Section 3:
Content of communications

For the purposes of clarity, each of the consecutive sections of the model are illustrated and described.

6.2.1 Section 1 of conceptual model: The foundation

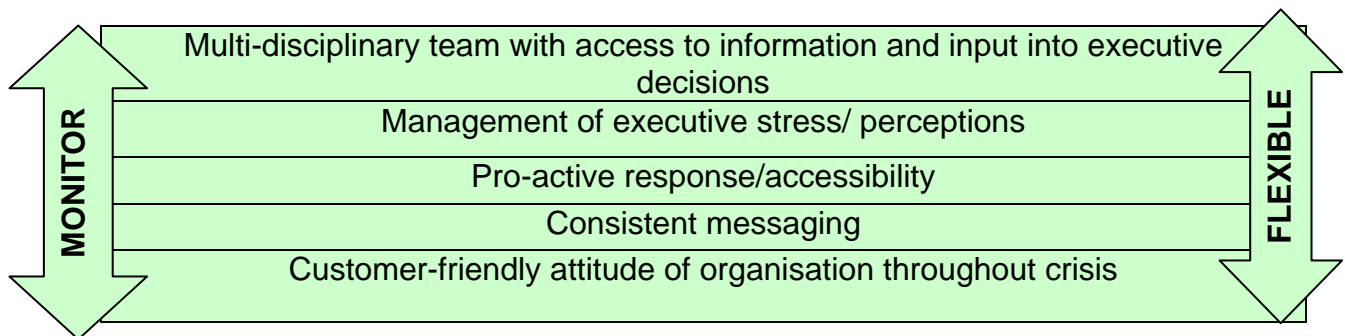


Figure 6.1: Fundamental building blocks for effective crisis communication with the media (the foundation)

This section of the model highlighted in green represents the fundamental factors or foundation necessary to ensure effective communication with the media during the crisis response stage. These building blocks or structure should be in place during the period when the crisis has reached the media and public's attention and

when the quality of communications issued could have a critical impact on the company's image.

Please note that in the explanations which follow, key arguments are summarised and references are given to the full discussions contained in the appropriate sections in Chapters 2 – 5. In summary, the foundation or structure necessary for effective crisis communication with the media, highlighted by this model, comprises the following:

- **Multidisciplinary crisis communication team with access to executive decisions and all crisis-related information**

(Refer to section 5.3.1.1 for further details from the case studies)

The model reminds us that it is important to select a crisis communication team that represents to a practicable degree the diverse, and sometimes conflicting concerns and interests of all stakeholders and departments in the organisation – such as customers; institutional shareholders; government relations; the departments responsible for media communications; public relations; legal issues; human resources; operations, finance and risk management. The team has to balance the best interests of all of these stakeholders in making communication decisions and according to Kempner (1995) a senior executive should have the final word on key decisions to be implemented (refer to section 2.3.7). The consequences of each decision or action should be discussed, debated and addressed before implementation. The spiral crisis response communication model (Hale et al 2005) (refer to section 3.4.1) offers a good illustration of this iterative process. This team may need to meet daily in cases of severe crises in order to determine

media/public responses or changes in strategic direction. Any board activities or strategic management decisions which may impact on the work of the crisis communication team will need to be addressed. Nothing should be hidden from the team so that it does not have to deal with any surprise elements. It is therefore essential that this team have access to all information pertaining to the organisation during a crisis. To alleviate these problems, scholars such as Angelopulo and Barker (2006) advocate the crisis communication head should form part of the top management of an organisation, have open access to information and the authority to make decisions.

- **Executive stress management / management of executive perceptions**

(Refer to section 5.3.1.2 for further details from the case studies)

The team needs to ensure that the spokespeople keep to the strategic communication messages and do not deviate or have knee-jerk reactions in their efforts to control media coverage. Company executives need to understand that the organisation cannot win every battle in the media space, especially if it is at fault, and that by following a strategic plan and meeting on a regular basis, the team can shape, but not control precisely, the tone of media coverage. Executives need to be made aware of the fact that the media can be hostile (and often is, because of the nature and requirements of the industry), and that it is necessary to manage stress levels in order to make level-headed communication decisions. This aspect has not been mentioned in the literature.

- **Customer-friendly attitude of organisation throughout crisis**

(Refer to section 5.3.1.6 for further details from case studies)

During the crisis the organisation must constantly be aware of its attitude toward journalists and the public. Public perceptions play a key role in the successful resolution of a crisis and an organisation that comes across as arrogant and unsympathetic will incur criticism for its handling of a crisis. In contrast, an organisation that clearly puts people first and is honest, forthright, humble and non-defensive in approach, will stand a better chance of having its reputation unscathed, or even enhanced at the conclusion of the crisis. The spokesperson who is appointed to face the media on behalf of the company will need to be likeable and media friendly. Training a spokesperson prior to a crisis, to control factors such as body language and expressions which could impart negative messages to an audience (refer to section 2.3.7.1), is essential because this person represents the organisation. Mersham and Skinner (2002) warn that without training a spokesperson can appear to lack credibility and honesty. A compassionate attitude conveyed by an organisational spokesperson during a crisis can help to build positive perceptions, even in cases where the organisation has no previous relationships with journalists or the public (refer to section 5.3.1.5 and 5.3.1.6). The organisation cannot rely on its irrevocable stocks of goodwill from shareholders prior to the crisis and must focus on creating goodwill during a crisis.

- **Proactive response and accessibility**

(Refer to section 5.3.1.4 for further details from the case studies)

By pro-actively engaging the media and having an open-door policy, an organisation is positioned to build trust and credibility with journalists and therefore has a better chance of managing public perceptions. An organisation that refuses to speak to the media and is merely reactive or slow to respond may appear to be hiding something or even guilty as charged. Pro-active media briefings or one-on-one meetings with trained media spokespeople and the release of media statements and/or editorial ensures that the organisation is not merely reactive to the media's agenda. Accessibility of key spokespeople to engage with journalists should be a top priority during a crisis. Even if the crisis is protracted, the organisation should keep the media informed, otherwise they will find alternative sources of information which may be completely inaccurate (Fink 2005) (refer to section 2.3.7). Bloom (2001) warns that without facts, a journalist is likely to publish an article based on speculation. Fink (2005:109) suggests that not engaging with the media can sometimes make the organisation look arrogant, or not in control of the situation.

- **Consistent messages**

(Refer to section 5.3.1.3 for further details from the case studies)

It is important for the organisation to speak with one voice, without contradiction and to design clear key messages so that there is no information overload or confusion in the public space. Coherence is achieved by analysing the output from the organisation and ensuring that spokespeople are briefed. Mersham and Skinner (2002) suggest that

centralising all media contacts with a single spokesperson minimises the possibility of conflicting statements.

- **Flexible in strategy and monitor changes in the environment**

(See arrows on either side of figure 6.1)

(Refer to section 5.3.1.5 for further details from the case studies)

By being alert and monitoring public perceptions the team can be responsive and seize opportunities to enhance strategic communication to media/public. Media pressure may force an organisation to change its response strategy. It is therefore necessary that the crisis communications team analyse media coverage continuously. If the crisis response is proved unconstructive or not accepted by major publics such as the media, the crisis-response strategy has to be changed. The crisis team must bear in mind that because it is human nature to fail occasionally, the organisation might have to admit a wrongdoing and apologise, and in these cases should not cling to initial strategies. The strategy throughout the crisis should therefore be flexible and fluid in nature, not rigid and uncompromising. The organisation should however attempt, as far as possible, to keep its arguments coherent and consistent even when a change of strategy is adopted, except of course, when the organisation has to admit wrongdoing and repent (refer to mortification strategy). By analysing the incidents, arguments and positions presented in the media coverage and adhering to the initial characterisations of the situation or problem, the crisis team can leave the impression of communicating consistently even when adjusting a strategy that has failed. Inherent in this precept of flexibility and monitoring is the principle of two-way communication. Symmetrical communication

ensures that communication is not just one-way – from the organisation to the media. The monitoring of feedback from the media and the environment is important to developing a robust crisis communication strategy. Symmetrical communication is stressed by authors such as Grunig (2000), Woodward (2000) and is fundamental to chaos theory (refer section 3.4.2).

6.2.2 Section 2 of model: Analysis of the crisis situation

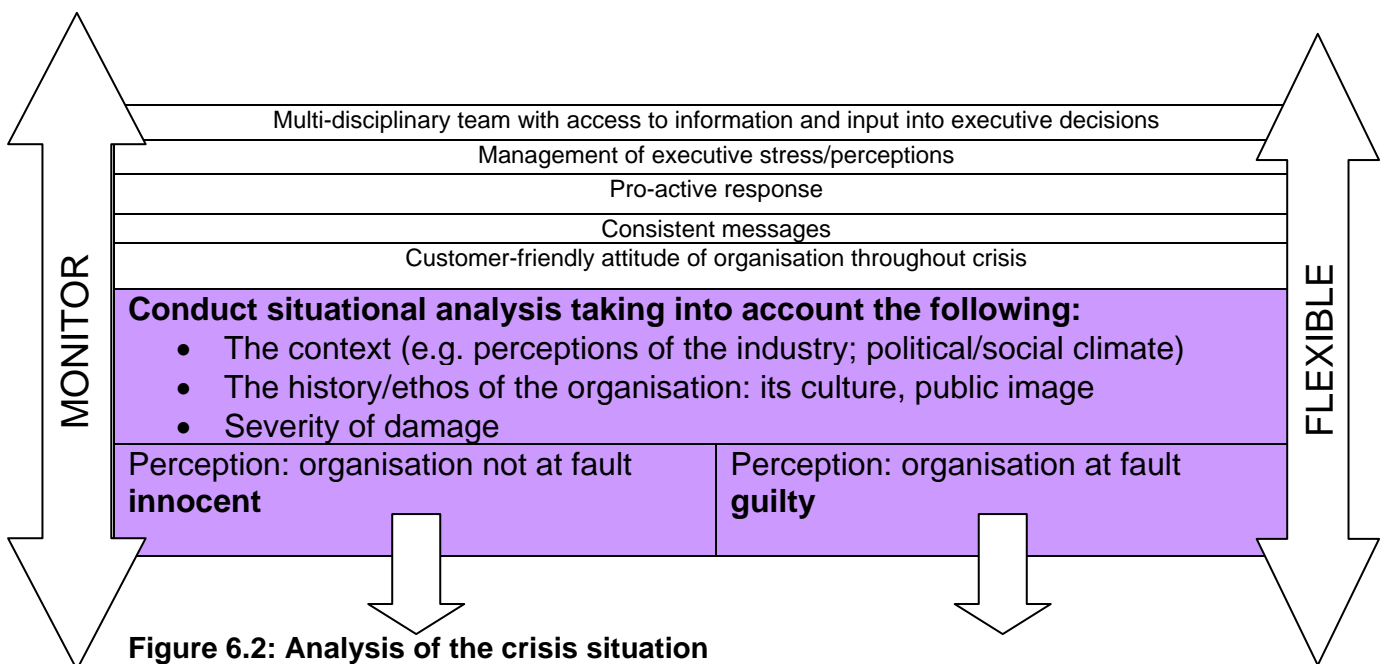


Figure 6.2: Analysis of the crisis situation

This section of the model highlighted in lilac suggests that an analysis of the crisis situation is imperative to the formulation of a response.

Keeping the fundamental building blocks or structure for successful crisis communication with the media in mind, the crisis communications team is advised to undertake a situational analysis. This section of the model has been based on amendments and additions to the SCC theory as discussed in chapter three. According to the theory, the situation in which the crisis is occurring should influence the organisational response to the media. The crisis situation is both a

constraint and an asset when articulating a crisis response (Coombs & Holladay 2001). It follows that the more comprehensive an understanding crisis managers have of the crisis situation, the better prepared they are to deliver an effective crisis response (Coombs & Holladay 2001). Critically important is whether the organisation in a particular context is perceived to be responsible or not for the crisis, because the greater the crisis responsibility, the more accommodative the crisis response strategy should be according to SCCT (Coombs 2004).

Although this section of the model has been influenced by SCC theory, the researcher has made amendments and additions to the theory based on the findings of the case studies examined and on the literature review conducted. These amendments and additions are noted. The main points of SCCT will merely be highlighted in this chapter for the purpose of clarity and the reader is referred to the relevant sections in the previous chapters for further details.

Factors to consider as part of the situational analysis are:

- **The context** (Refer to 3.4.3.2)

SCCT takes into consideration only one element of context - the organisation's **history** - specifically whether it has endured similar crises in the past. This conceptual model expands the definition of context to include factors such as public perceptions of the **industry** as a whole in the country in which it operates - for example the reputation of the banking or insurance sector, the ethos of the organisation itself (is the organisation customer focussed or dynamic?), as well as the political and social climate (additions to SCCT). The crisis communication team would need, for

example, to consider whether there is a huge public outcry regarding the crisis and overt demands by government for compensation to victims in order to design a response sensitive to context and expectations. An organisation that is perceived as having a good ethos may have an easier time convincing the public to accept its interpretation of events. On the other hand, however, it could be argued that additional compensation or more remedial actions may be expected from an organisation that is viewed in a favourable light by the public, than one which has a poor public image. Context is also noted as a critical factor in the decision-making process by the spiral crisis response model (section 3.4.1) and chaos theory (section 3.4.2). The spiral crisis response model illustrates how additional information and data from the environment affects the decision-making process during a crisis (Hale et al 2005). Advocates of chaos theory, such as Bloom et al (2002), stress that crisis communicators should determine acceptable courses of actions from environmental trends.

- **The severity of damage** (Refer to 3.4.3.2)

This refers to the impact of the crisis on victims. Severe damage to victims may dictate greater rectification strategies and statements (Coombs 2004). A finding from the Absa case study suggests that **any** consequence to victim/s as a result of a crisis, should be acknowledged as serious by the organisation in its response (refer to section 5.3.2.1).

- **Whether the organisation is perceived to be responsible for causing the crisis or not** (Refer to 3.4.3.1)

According to Coombs (2004) if the organisation could have prevented the crisis, the media is more likely to be critical of the organisation.

The three perceptions listed above will dictate the type of response chosen, according to this section of the proposed model. For the purpose of simplicity and clarity, it was decided to divide the overall analysis of the crisis situation into two categories as perceived by the media and the public – one entitled organisation at fault or guilty and the other, organisation not at fault or innocent. This reflects a deviation from the SCC theory which divides the overall analysis of the crisis situation into the accidental, preventable and victim clusters (amendment to SCCT; refer to section 3.4.3.3). While it is acknowledged that the aforementioned categories proposed by SCCT can be useful in distinguishing between crises which the organisation did not purposely intend to happen, it is proposed that perceptions of a crisis by the media or public are generally either one or the other (that the organisation is responsible or not – albeit to **differing degrees**) and that crisis responses can be adjusted accordingly. It is suggested that the excuse tactic or explanation of “we did not mean for the crisis to happen” might be applicable as an ingratiating strategy in an interpersonal context but not in an organisational context. It is thought that the public would generally not accept this as an excuse from an organisation, given an organisation’s perceived responsibilities and its legitimacy, or sanction to operate (Boyd 2000) (refer to section 2.2.6). A financial institution that states that it did not intend to lose a client’s investment would probably not be forgiven or viewed in a gentler light. This kind of excuse tactic

recommended by SCCT is not included as an option in the proposed model for this reason (amendment to SCCT).

Nevertheless, even if perceptions are negative, the organisation can choose a response that can lessen media criticism and which may even earn it positive exposure. Brief illustrations drawn from the research conducted are included as examples. For full explanations refer to chapter five.

6.2.2 Section 3 of model: Content of communication to the media

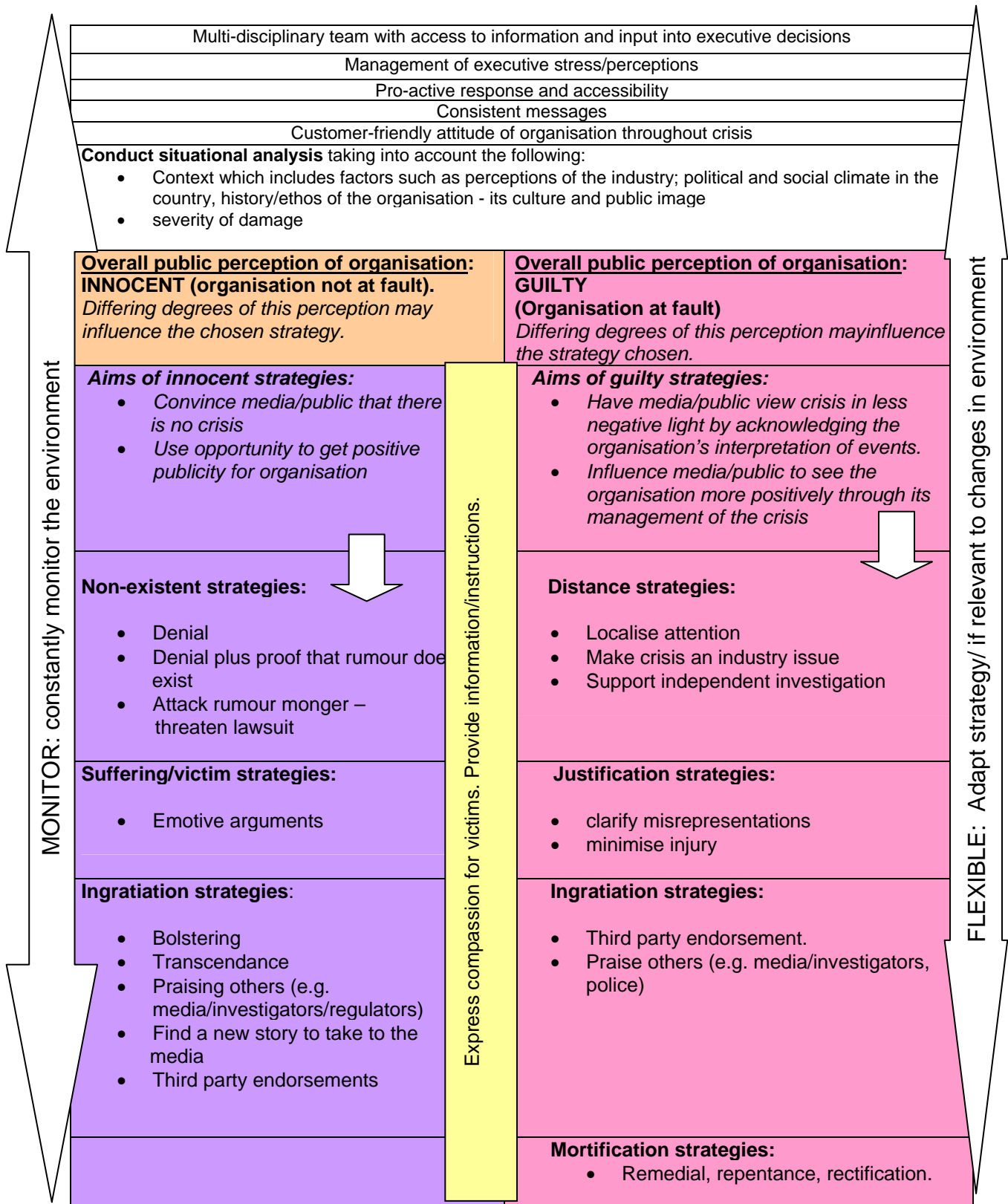


Figure 6.3: Content of communication to the media

This section of the model describes some alternatives for the actual content of communication to the media.

At this point, the crisis communicator is confronted with a range of possible responses (or a combination of them) from which to choose. These have been separated into two columns: the right hand column is entitled **guilty** (organisation at fault) and the left hand column is entitled **innocent** (organisation **not** at fault). The aforementioned headings describe the dominant perception of the public and media towards an organisation in crisis.

If an organisation is perceived by the public/media to be guilty, but is in fact innocent, the crisis communicator could apply the appropriate non-existent tactics in the innocent/left hand column. On the other hand, if the organisation is perceived to be innocent, but is in fact guilty, no response is necessarily required, as the organisation's reputation or organisational legitimacy would not be under threat and the situation would not be classified as a crisis from a communication perspective. In the majority of cases, it is only when an organisation is negatively portrayed in the media that a response is required, in terms of crisis management principals. There are of course exceptions to this. Another organisation or person could be wrongly accused for the crisis or the organisation could be concerned that investigations may reveal the truth at a later stage. In such cases, the response adopted would be guided by senior management who are responsible for the ethics and governance of the organisation. Decisions about how much or how little information to reveal to the media are discussed in section 2.3.5, with the proviso that an organisation should never lie to a journalist.

Non-interchangeable strategies/tactics:

It should be noted that some of the strategies in each column are **not interchangeable** (addition to SCCT). That is, if an organisation is guilty, it should not employ the denial tactic, or if the organisation is not at fault, it is not necessary or appropriate to use the justification strategies (addition to SCCT). Ingratiation tactics such as taking a new story to the media or bolstering are only advised when the organisation is not to blame (amendment to SCCT). This is because these tactics might be construed as an avoidance mechanism by the organisation to draw attention away from its responsibilities in terms of a crisis. When the organisation is not at fault, such as in Standard Bank's case study, it is apt for it to try and seek public approval as it did by bolstering its own business case at the expense of Nedcor's strategy. However, when the company is at fault, the ingratiation techniques would need to be more subtle, such as through the employment of third party endorsements, for as Reinhardt (1987:44) declares: *The organisation in crisis should not be promotional when dealing with the media because a crisis is not the time for a company to pitch its products or services.*

Interchangeable strategies/tactics:

The findings of the case studies revealed a number of **new** strategies that are not included in the SCCT and which can be classified as **interchangeable strategies**. The first two tactics mentioned should be incorporated into the crisis response for good effect, regardless of whether the organisation is perceived to be innocent or guilty (amendment to SCCT). These are illustrated in the yellow panel between the left and right hand columns and include the following ingratiating tactics:

- **Compassion** for any possible victims or casualties of the crisis should be incorporated into the wording of the response (amendment to SCCT). This stance illustrates the integrity of the organisation and does not necessarily mean that the organisation has to pay compensation (refer to section 3.5.1.4). If the organisation does not acknowledge the plight of any possible victims and does not express its concern in human terms, it might be severely criticised in the media, which could create another crisis for the organisation. Any bolstering or ingratiation tactics that an innocent organisation applies which are not preceded by a compassionate statement could be misinterpreted as boasting, arrogance or insensitivity.
- **Information** about the crisis and/or advice or instructional information to prevent further casualties, when relevant. The rationale for including the aforementioned tactic for both situations is that even though the organisation is not to blame, it is still concerned about its clients and wants to make sure they know what to do during the crisis to protect their finances or their lives. In any circumstances, it is the correct thing to do in a crisis, regardless of whether the organisation is innocent or guilty. Examples of this pertaining to the financial services sector could be the issuing of tips on how clients can protect themselves when banking online or at an ATM, or from being deceived by pyramid schemes (amendment to SCCT). It is interesting to note that Absa, since its hacking crisis, regularly disseminates such advice and information to the media (Smith 2006). This advice is very popular and generally always gets published free of charge which gives the organisation vast exposure in the media (Smith 2006). The intent is for the organisation to portray itself as a friend of the consumer and as a specialist

in security and financial advice (Smith 2006). A word of caution here however, is that this strategy may be misinterpreted by the public as an obfuscation of duty by the organisation or an attempt to put the blame on the customers. This is what initially happened in Absa's case when the bank did not include in its strategy, its concern for victims, so that it appeared as if Absa was avoiding any responsibility for internet fraud and passing the responsibility directly to the consumers. The tips/information must be phrased in such a way as to be helpful, rather than critical or accusatory, and should be preceded by compassion, as mentioned in the previous point.

Other interchangeable strategies that **can** be used effectively in both innocent and guilty contexts include:

- The ingratiation tactic of third party endorsements (addition to SCCT).
- The ingratiation tactic of praising others, such as the media or investigators, for their work in exposing or dealing with a crisis.

An important factor to remember is that any strategy chosen may need to be adapted according to the principles of constant monitoring and flexibility as part of the fundamental building blocks/foundations of crisis communications (section 1 of model).

6.2.2.1 *Innocent category:*

Strategies to be employed if the organisation is perceived to be not at fault

If the organisation is not at fault, the crisis communication team can employ any of the listed options (refer to left-hand column of figure 6.3), the aims of which are to convince the media/public that there is no crisis and at the same time to garner positive publicity for the organisation, particularly through the use of ingratiation strategies. The innocent strategies are classified as: non-existent, suffering/victim and ingratiation.

- **Non-existent strategies** (refer to 3.4.3.3)

These strategies seek to eliminate the crisis. They could include a categorical denial statement without explanation; a denial statement together with evidence that the rumour is unfounded; or, in certain cases, the organisation might threaten lawsuits against those spreading the rumour (attack tactic). The denial strategy should **only** be used if there is no basis for the rumours (Coombs 2001). The organisation in crisis may also need to take into account that protestations of innocence could be treated with scepticism by a wary media (Smith 2006). Another factor to consider is that an attack strategy can be highly risky because it portrays the organisation in an aggressive light (Hearit 2001). It is therefore suggested that this strategy only be used in extreme situations (amendment to SCCT).

- **Suffering/victim strategies** (refer to 3.4.3.3)

These strategies use messages to elicit public sympathy. Emotive arguments and third party endorsements (additions to SCCT) were used to good effect by Standard Bank (refer to chapter five for more detail).

- **Ingratiation strategies** (refer to 3.4.3.3)

Public approval is sought for the organisation through the following tactics: bolstering (associating the organisation with positive traits), transcendence (seeing the context or bigger picture of the crisis), praising others (for example by complimenting the media for their role in the investigations), third party endorsements (addition to SCCT) or finding a new story to take to the media (addition to SCCT).

6.2.2.2 Guilty category:

Strategies to be employed if the organisation is perceived to be at fault

If the organisation is at fault, the crisis communication team can choose from the listed tactical options (refer to right-hand column of figure 6.3) the aims of which are to get the public/media to view the crisis in a less negative light by acknowledging the organisation's interpretation of events or to be viewed more positively by the sensitive handling of the crisis. An organisation can gain positive publicity for its laudable behaviour during a crisis, even in instances where it caused the crisis. These strategies are classified as: distance, justification, ingratiation and justification. (Please note: A few brief explanations drawn from the case studies are given as examples. Full details appear in chapter five)

Distance strategies (refer to section 3.4.3.3)

These strategies acknowledge the crisis but try to weaken the link between the crisis and the organisation.

- **Localise attention or put the attention or spotlight on one area/person.**

For example, in FirstRand's case, the strategy employed by the crisis communications team ensured that the focus was placed on the accused member (Mac Maharaj) and not on the full board of FirstRand. SCCT uses the term scapegoating. Because of the negative connotation of this word, localising attention is preferred by this model (amendment to SCCT). For a full explanation of the preferred term, kindly refer to section 5.3.2.1. Unlike SCCT, the proposed model does not recommend making an excuse for the crisis or shifting blame, rather this tactic of localising attention is used only if it is legitimate and is not done in a defensive manner. FirstRand provides a good example of this tactic applied in the appropriate context (refer to section 5.3.2.1)

- **Make the crisis an industry issue and not one experienced only by a particular organisation** (addition to SCCT). For example, Absa was

perceived favourably because it brought together all the banks to discuss and tackle the problem of internet fraud as one that affected the entire banking industry. This tactic helped dilute the negative attention given solely to Absa in the media space and protected the organisation's credibility.

- **Support an independent investigation into the crisis** (addition to SCCT).

This tactic is aimed at creating credibility with the public by showing a

transparency and willingness to have external parties investigate the matter and share the findings with the media.

Justification strategies (refer to section 3.4.3.3)

- These strategies seek to minimise damage associated with the crisis, often through clarification. Absa, for example, tried to communicate to the public that there was minimal damage as a result of identity theft and that the extent and nature of the crisis had been misrepresented by the media. Absa attempted to convey the message that the media had used the term “hacking” which is incorrect as the bank’s systems had not been infiltrated. From the study conducted, it seems that justification strategies should be used with caution and are not always successful because they may come across as insensitive and defensive, as in Absa’s case (amendment to SCCT). The proposed model suggests a cautionary approach when using tactics such as minimising injury proposed by SCCT (amendment to SCCT). This finding concurs with that of Huang (2005:32) who argues that this response could be associated with manipulation and could ruin organisation-public relationships. If the organisation is perceived to be to blame, even if technically it is not, as in Absa’s identity theft crisis, the proposed model suggests that, at the very least, compassion be demonstrated for the victims of the crisis.

Ingratiation strategies (refer to section 3.4.3.3)

These strategies are designed to improve public perceptions about the organisation by associating it with positive attributes.

- **Independent third party endorsements and praising others**

These tactics involve soliciting comment in support of the organisation's arguments or defence from respected, independent third parties (addition to SCCT). All of the banks investigated engaged in this practice which has not been mentioned in the literature. Again this tactic lends credibility to the organisation in crisis and helps to dilute negative sentiment. In cases where the organisation is at fault, this tactic serves as a defence and because it comes from a source outside the organisation, it is perceived as being more reliable than if the organisation themselves put forward the argument. Praising other parties, such as the Competition Board for pointing out unfair practices, or the police for their investigations into the matter, or even the journalists for exposing the situation, can earn the organisation favourable publicity.

Mortification strategies (refer to section 3.4.3.3)

These strategies are designed to encourage the public to forgive the organisation. Mortification strategies/tactics suggested by this research when an organisation is perceived to be at fault include the following: remedial action, repentance and rectification.

- **Remedial action** could include an explanation of what the organisation is doing to prevent the crisis from re-occurring. Absa, for example, accelerated its programme of security enhancements to help protect customers from the threat of further fraud. An organisation could combine praise with remedial tactics. For example: Thank you for drawing our attention to the issue. To

ensure that this does not happen again we are taking the following actions. To prevent further negative publicity, even though it was not obliged to do so, Absa also offered full financial compensation to the victims of identity theft – an example of a **rectification** strategy. The value of compensation would be dependent on a full situational analysis (refer to section 2 of the model described in section 6.2.2) which would determine how much responsibility an organisation should bear. **Repentance** is when the organisation publicly accepts full responsibility for the crisis and requests forgiveness from stakeholders.

6.3 Critical evaluation of proposed crisis response model (CR-model)

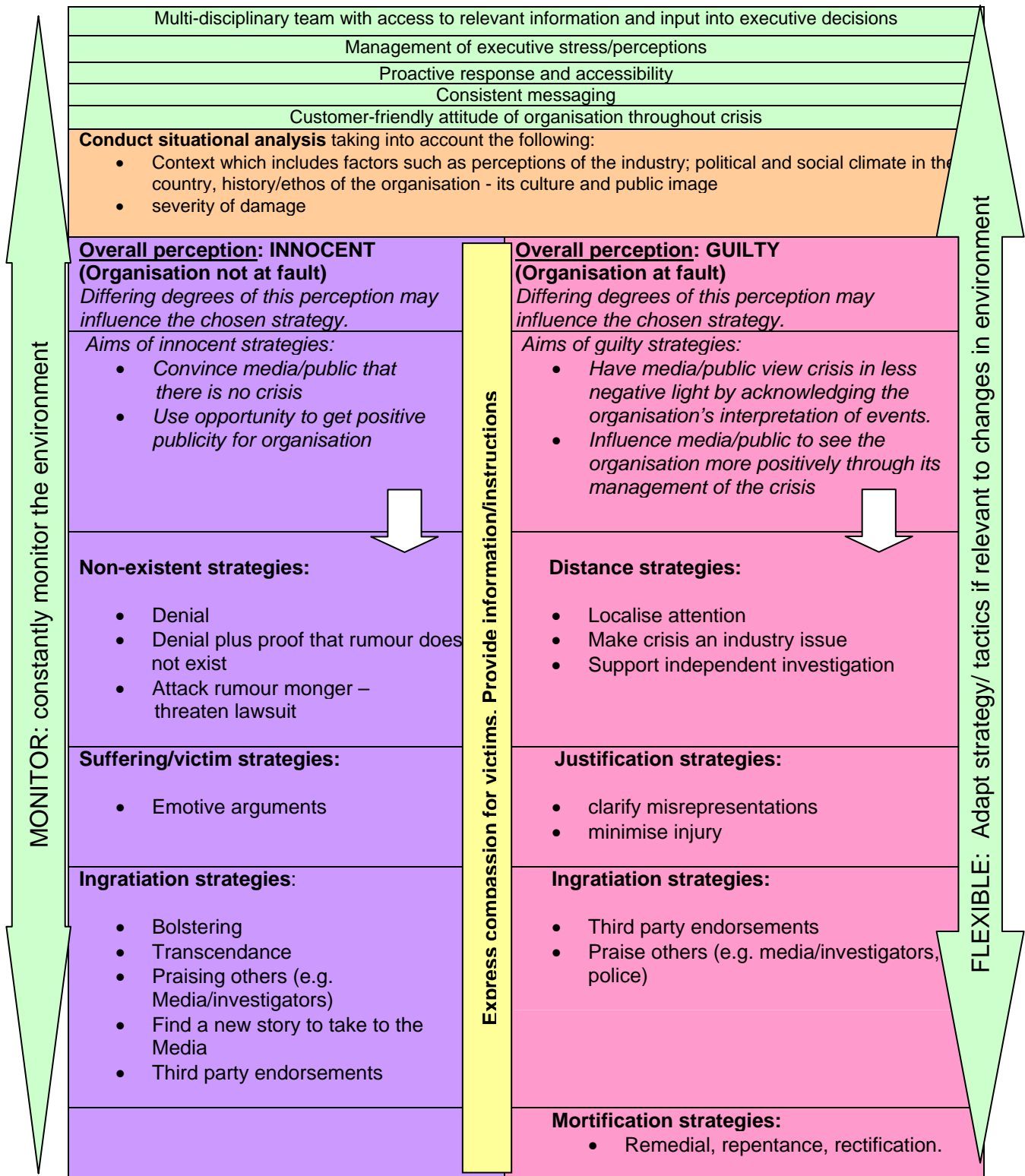


Figure 6.4: conceptual model for organisational strategies of crisis communication with the media (CR-model):

Lexicon: section 1: Green - Foundation
 section 2: Orange - Analysis of the crisis situation
 section 3: Content of communications
 Lilac - innocent tactics; Pink – guilty tactics

This section evaluates the strengths and weaknesses of the proposed crisis response model (or CR-model).

6.3.1 Weaknesses of CR-model

- As with most models, the quest for simplicity may affect the application of this model to live situations of crisis. It is possible that some explanatory factors and variables have been excluded. Because this is an interpretive model there are obvious shortcomings regarding the potential for generalisation. However the aim is not to provide a model of standard response or dictate all organisational behaviours in a crisis. Rather the aim is to provide guidelines for the process of decision-making. It must be remembered that crises are complex and demand complex, situation-driven responses (Englehardt et al 2004).

6.3.2 Strengths of CR-model

- What could be considered valuable is that the CR-model illustrates and puts in place the basic building blocks necessary for crisis response and suggests some strategies and tactics to adopt when communicating with the media, which are dependent on the context in which the crisis occurs. It thus combines and synthesises all the critical factors and decision-making processes for considered communication during the crisis-response phase. It gives the crisis communicator a process to follow and suggestions about the actual content of crisis response communications and strategy. It also suggests areas where caution should be followed in applying a particular

strategy. The literature review shows that no other model illustrates or combines these factors with the integrity of the CR model which makes it unique.

- The model can also be applied during the pre-planning stage of crisis preparation as it can help formulate possible standard responses to some predictable crises. It provides a comprehensive summary of all the factors needed to be considered before compiling a media response.
- The model also facilitates the categorisation of the crisis – as one in which the media will consider the organisation at fault, or not, and then, based on research, suggests ideas for different strategies and tactics that have been known to be successful. Because it is based on tried and tested strategies gleaned either through the literature review or from the research material, the model has empirical significance.
- It addresses the limitations of other theories such as SCCT by acknowledging that context plays an important role in deciding what strategy to follow. Although, the context of the research was limited to the banking environment in South Africa, the lilac section of the model highlights the imperative that context should be considered before making a decision about content. This gives the model a certain degree of adaptability to different organisational sectors and different cultures or countries. This is a key advantage of the model.

- It also accommodates crisis response strategies that allow for organisational statements that express concern and sympathy without placing blame on the organisation which may carry legal and financial responsibilities (Englehardt et al 2004). This factor remains absent in other models.
- The bulk of related research offers task-level support of specific foreseen crises (Hale et al 2005) and thus provides excellent planning strategies. What the CR-model does is provide crisis communication support and content decision-making tools during the actual crisis. Not every crisis communication strategy can be planned in exact detail before a crisis commences because the crisis communication team needs to monitor and adjust its communications to meet public perceptions and exploit possible opportunities that may arise.
- The model highlights the precepts of progressive systems approaches by focusing on two-way symmetrical communication, through a constant monitoring of the environment and flexible responses thereto. In this it presents a more dynamic and responsive approach to that of the traditional linear models discussed in chapter three.

In summary, the study has built a qualitatively based model of crisis response communication that could prove to be useful when an organisation is under time pressure to provide a response to the media. The more we know about the crisis response process, the more effective a crisis manager can be (Coombs 1999a). The model has been based, in a large part, on data collected from crisis managers in a real business context, based upon their actual experiences in handling crises,

as well as from an extensive literature review of material gleaned from similar studies. The study thus provides empirical evidence to demonstrate the value of categories of responses and is not purely theoretical.

6.4 Evaluation of entire research

The aim of the research was to translate the existing literature on crisis communication and crisis management principles and theories, as well as the knowledge gained from case studies of crises in the South African banking environment, into a currently relevant conceptual model for corporate strategies of crisis communications with the media. It is believed that this task has been adequately executed and the proposed model represents a synthesis of the material and case studies researched and discussed. The research provided insights, often absent from more traditional quantitative approaches, which could assist those crisis communicators desiring to enter the field, as well as to practicing communicators seeking to conceptualise their experiences/strategies to facilitate decision-making with ease during the crisis-response phase.

6.4.1 Weaknesses of the research

It is acknowledged that the study as a whole has some weaknesses which include the following:

- The researcher selected, interpreted and articulated various meanings from the raw interview material, but they are not the only meanings that could exist (Bryne-Armstrong, Higgs & Horsfall 2001). Different meanings and

completely different observations could be identified and interpreted by other readers. This is the subjectivity of the research. The interpretations could have been different had there been different participants, a different interviewer or even a different context. The researcher was thus cognitively limited in the sense that the mind tends to select data that confirm the meanings that have already been identified (Gordon 1999). They will not be the only interpretations possible. They represent a view, rather than **the** view. It could be argued however, that by combining the interviews with an intensive literature review and data obtained from newspaper material, that the subjectivity of the researcher is counteracted to some degree by an analysis of the aforementioned material.

- Qualitative research which is the approach adopted by this study is time and labour intensive. Therefore it is not feasible to use a large sample and it is normal practice that only a few cases are studied intensively (Darlington & Scott 2002). This affects the ability to generalise the findings. In this research, only three cases were studied and all of them pertained to the financial services sector. All of the participants were South African. However, by combining these results, with information from an intensive literature review of material gleaned from research into crises from other industries and countries, the proposed conceptual model is possibly afforded a wider application.
- According to Becvar and Becvar (2000), qualitative research is still often regarded in research circles as inferior to the highly scientific empirical traditions of quantitative research. Becvar and Becvar (2000:337) state: *It is*

the model with which consumers of our services are familiar and in which they have faith, regardless of whether or not this faith is justified.

Nevertheless, in qualitative research, the recognition of meaning patterns and the usefulness of the interpretations gleaned from the research are considered of greater importance than the yielding of statistical data (Neuman 2000).

6.4.2 Strengths of the research

- This study can be seen to represent a progression on the research that has been done on the use of crisis management and communication with the media to protect organisational reputations. The section on analysing a situation to determine a response is an extension of Coombs' research on matching crisis response strategies with the public to the crisis situation, while also building on the work of other crisis management scholars. It has helped further the argument that it is important to understand a crisis situation in order to select the most appropriate or effective crisis response strategy (Coombs 1998, 1999a).

6.4.3 Recommendations for future research

- Future research could further investigate and evaluate the different categories of responses in order to determine their effectiveness and to create further response options to add to the model.
- The link between the responses chosen and the context of the crisis could be examined in order to advance the arguments made.

- Additional research could assess how people perceive the various crisis responses.
- A larger sample, including other industries and contexts, would increase the ability to generalise the findings, which is not possible with a sample of this size. In these ways, the model could be further refined.

6.5 Conclusion

The proposed conceptual model for crisis communication with the media discussed in this chapter is based on the results of the case studies researched on crises in the financial services sector, and on the literature focusing on the crisis-response stage. While acknowledging its limitations, the model is useful in illustrating factors that require consideration when making strategic decisions during this critical phase of crisis communications: the building blocks, the need to consider context before choosing responses. The literature reveals that no other model illustrates all of these factors and in this way the proposed CR model is unique. The model also has value in that it illustrates various response options available to the crisis communicator during the crisis-response period with the media, when there is often limited time for making strategic decisions. It highlights that certain responses should be applied with caution because of the possible perceptions that they might create and it places integrity high on the agenda when making these decisions. This factor also accords the CR model unique status. It thus provides the crisis communicator with a simple and thoughtful decision-making tool. Because it is based on tried and tested strategies, the model has empirical significance. Opportunities for further research and testing of the proposed model have been suggested in order to enhance its contribution to the crisis

communications field as a credible, worthwhile and perhaps even scientific instrument.

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ANNEXURE A: A CASE STUDY OF A “HACKING” CRISIS AT SOUTH AFRICA’S LARGEST INTERNET BANK - ABSA

A.1 Purpose of this annexure

The purpose of annexure is to examine the crisis communication strategies employed by Absa and to analyse the media coverage surrounding the well-publicised Absa cases of identity theft using key-stroke logging software in the period July 2003 – October 2003. This was considered to be a protracted or continuing crisis (refer to section 2.2.2) for the bank, in that a great deal of intensive negative publicity was incurred over a four month period, and since then, the “Absa hacker” continues to incur mentions in the media in sensationalist articles pertaining to internet security issues. The fear at the start of the crisis in July 2003 was that the public would cancel their internet banking accounts with Absa – that there would be a run on internet banking. Information gleaned for this chapter was obtained from archived internet media reports and from interviews with the head of the Absa’s media communications, who was responsible for managing the messages to the media during the crisis. The analysis was conducted by the researcher and the authenticity and validity of the interpretations checked with the participant.

In order to provide full context, the background of the crisis will be explained in the section which follows.

A.2 Background to the crisis

This section includes a definition of the term identity theft as well as the details of the complete story which made headlines in the media space.

A.2.1 Definition of identity theft

Identity theft is the invasion of a customer's personal computer through the planting of key-logging (spyware) software which records the customer's PIN and username. The thief then uses this information to impersonate the customer and steal money from his or her accounts.

Identity theft is not the hacking of a bank's security systems. Clients using their home computers to access the web are the vulnerable targets of this form of cyber-crime, unless precautionary measures are taken by clients. These measures include installing the latest virus control software on home computers and deleting suspicious looking emails.

A.2.2 How the story unfolded in the South African media

The South African media reported extensively on the subject during the initial intensive four month period of the crisis. At times this coverage was misleading in that the facts were not always reported accurately. Journalists confused the term

hacking (infiltration of a bank's security systems) with *identity theft* (infiltration of clients' computers). The media repeatedly referred to the fraudster/s as the "Absa Hacker/s". The phrase stuck even though journalists were told that Absa's systems had not been penetrated. Emotive headlines encouraged a media sensation around what could be described as a relatively minor case of fraud – a total of R530 000 was stolen.

The story broke with a dramatic, but technically incorrect Sunday Times headline: *Hacker cleans out bank accounts – hundreds of thousands of rand stolen via internet from Absa clients* (Sunday Times 2003:1).

It is suspected that one of the victims, a Belville-based lawyer, leaked the story to Edwin Lombard, journalist at the Sunday Times. This was the start of a public furore on which the media avidly fed. It is unfortunate that Absa was initially the only bank to be associated with this kind of fraud even though later reports started to regard identity theft as an industry issue. The perception appeared to persist even though it was revealed that the suspect, J J Fourie, also allegedly stole money from an FNB and a Standard Bank client.

It's safety first Standard tells its online clients (Business Report 2003:1)

Absa's competitors used the opportunity to promote their advanced security systems already in place at the time of Absa's crisis and were quick off the mark to introduce additional security measures, which gave the impression that Absa lagged behind in this regard. Standard Bank in particular, was quick to supply their

clients with free anti-virus software and an on-line screen pad as an alternative to a keyboard to guard against fraud. Nedbank and FNB already had an SMS beneficiary notification in place, which alerts customers of every single transaction that takes place on their accounts. Immediately following the crisis, Absa accelerated the rollout of its online security measures planned for the financial year ahead, but Absa was criticised for not having done this sooner, as in prior to the crisis, to prevent the fraud from occurring.

Specialist IT writers criticised Absa media spokespeople for being vague and for not knowing the full facts, or the difference between spyware, Trojan horses, keyloggers and antivirus software (eg. Anti-virus software does not prevent spyware). This gave the impression that Absa was not viewing the matter as serious and/or that its personnel were ill-informed.

Absa was also criticised for suggesting that identity theft using software was the latest international trend in internet fraud, when in reality it had been around for the past 15-20 years. Specialist IT journalists suggested that the banking industry as a whole should have known this and found comprehensive ways to protect its clients before the fraud occurred. Mistaken though it may be, the media's perception was that Absa, the largest internet bank in South Africa had not put additional security measures in place as quickly as other banks had done. *The customer should come first in a crisis, at any cost* (Business Report: 2003:2).

Absa was initially disparaged for shifting responsibility for this kind of fraud to the client. Absa basically stated that because the fraud was initiated at the clients' computers, it was their fault for not having the right software, not updating their anti-virus package as often as they should, or for opening suspicious looking e-mails. While Absa's legal team were adamant that the bank was not liable for client losses experienced through identity theft, this stance did not endear the bank to the media or to the public. There was a need for damage control, but the full implications of this stance was not realised by the crisis team until the onslaught of negative publicity was received.

For example, an Absa call centre operator was depicted in an amusing cartoon in *The Star* (2003:1) with the caption: *How can we fob you off?* Sensationalist headlines continued to feed public paranoia. The perception was that Absa was unconcerned about its clients, which angered the journalists. Absa needed to do something to rebuild broken trust.

Competitor banks such as FNB seized the opportunity for positive publicity by reassuring its customers of the safety of their money online. In particular, FNB was direct and clear in its assurances promising its customers that it would refund any amount illegally removed together with charges and lost interest. *The guarantee reflects the bank's confidence in both its security precautions and the efficiency of its early warning service* (The Star: 2003:2).

It was unfortunate that an additional fraud scare hit Absa in the Pietermaritzburg area hot on the heels of South Africa's first alleged e-robber being arrested. This fuelled public paranoia as it suggested that there were additional incidents of identity theft and that they were not limited to the Western Cape region or to a particular fraudster, as had been reported. Investigations quickly revealed that these incidents of fraud were not related to identity theft however, the damage had already been done. Both the media and the public inferred that internet banking had again been shown to be vulnerable. Clients sent letters to publications and the media across the country picked up on the story again. At the same time, a fraudster gained access to 52 South African websites in less than 18 hours including one bank site - African Bank and although there was no indication that this fraudster was involved in any of the Absa incidents, the implication was certainly conveyed. These kinds of incidents gave journalists covering the "Absa hacker" story additional angles to write about with the result that Absa's crisis continued to dominate headlines and opinion pages.

Given the continued negative backlash against its seemingly aloof stance, Absa made a strategic decision to take the industry lead in fighting the crime of identity theft and relayed to the journalists that it would initiate discussions with other major banks to share information. This helped to shift the focus from Absa and reflected positively on Absa's image as the bank started to be perceived as pro-active in developing the means to make internet banking safer across the industry for all South African internet banking users. The tactic was that Absa wanted to be

viewed as the bank that discovered the fraud and brought it to the attention of the market. Absa stated that it was the only bank to conduct forensic audits of each affected client's PC to ascertain the *modus operandi* of the fraudsters.

Over time it emerged that Standard Bank and FNB clients had also been affected. This assisted Absa in regaining the high ground and lent credibility to Absa's claim that this was an industry issue and not just an Absa issue.

Online banking faces security crisis (Business Day: 2003:1).

Absa's strategy to make identity theft an industry issue began to pay off. Journalists started to report on what the banks collectively needed to do to rectify the situation and the responsibility of the banks to educate consumers on the best way to protect themselves from this crime. The industry as a whole was criticised by the South African Consumer Union for not educating its customers before the crime hit. However, finally the criticism was directed at the banking industry, not just at Absa. In addition, some reports carried references to the fact that identity theft is an international threat for all internet-based transactions, including online shopping sites, which helped to deflect the spotlight from Absa alone.

Absa also started a campaign to counteract earlier criticism, by showing that it cared for its customers by disseminating additional security tips together with an assurance that it would refund any money in confirmed cases of identity theft. The net effect was that journalists began to reflect the facts accurately, stating that Absa's systems had not been infiltrated. Absa's close co-operation with the police

and the arrest of a suspect appeared to boost public confidence in internet banking. Absa had a new story to take to the media. The perception was also that the fraud was restricted to one perpetrator and to one geographical area – the Western Cape. This perception worked in Absa's favour. The tracking of the fraudster, his arrest, appearances in court, bail hearing, police recovery of the "cyber thief's loot", as well as the possibility of his having accomplices, was followed with interest by the public.

As more and more people started to understand the nature of identity theft, so the media began to reflect these sentiments. From market research conducted by Absa during the period July – August 2003, it was evident that the number of new registrations of internet banking during the media scare far outweighed the cancellations. It is clear that Absa's client base was not put off by the crisis reported in newspapers, on radio and television.

A.3 Critical Analysis: Insights, comments and lessons learnt about crisis

This analysis was constructed by the researcher with the cooperation of the head of media communication at Absa, who was responsible for managing the communication strategy to the media at the time of the crisis.

A.3.1 Customer first, customer reassurance

The media criticised Absa for its aloof, defensive, hands off approach and of trying to shift the blame to the client in cases of identity theft. Absa had initially focussed its communication almost exclusively on warning customers of their duty to protect their computers from viruses and crimes as well as supplying tips on how to do this. The head of Absa's media communication explains: *We first made the mistake of blaming the customers and then we had a crisis on a crisis. You must be very careful. Lesson number one for Absa was you never blame your customers. Never build a wedge between your stakeholders and yourselves when you have a crisis – rule number one. Rule number two – refer to rule number one.*

Absa at the time had a good relationship with the police, the analysts, the banking regulators. What we didn't have was a relationship with the customer in terms of internet fraud and that caused a scandal. We did have a good relationship with the media, but remember, once you face a crisis and you've been negligent or you've been perceived as negligent, that relationship with the media goes out the back door. When it comes to the crunch, the relationship between the media and the bank is basically adversarial. The journalist's job is to find news stories and you can be pretty sure that it won't be good news that he or she is looking for. It's bad news that sells newspapers.

The media can be extremely unforgiving especially if you blame your customers; as was the case in the hacking crisis; and especially if you've acted like an idiot and acted aggressively towards them, saying that it's their own fault that they lost their money. When managing any crisis, those dealing with the media must bear in mind that regardless of any legal niceties, it's the journalist's opinions that will be printed in the newspaper the following morning. They will not easily forgive you.

It took us longer than it should have to correct internet fraud and we spent R8 million on ads alone. After a shaky start, day after day, week after week, we had meeting after meeting to make sure we communicated the right message.

Absa realised that it needed to give its customers a sense of security and reassurance. The customers had to feel that their money was safe when banking online. The reassurance took the form of a guarantee. Absa guaranteed that it would refund money stolen in confirmed cases of identity theft (after a full investigation into each case). Absa also said that they would work together with all affected organisations, including the police to fight cyber-crime. The head of media communication at Absa explained: *From a legal perspective it appeared we were covered. The advice from the bank's legal team was that we were not liable in cases of identity theft. That's where the original defensive strategy came in; "it's your (the customer's) fault" because you didn't have the necessary protection in place. But after the reaction from the public and from the media we had to change our tune. Legal issues are legal issues, but in an emotive case such as this, you*

don't base your crisis communications on legalities. People don't want to know about legalities because they don't understand it.

A.3.2 Healthy tension between members of the crisis communications team: a multi-perspective approach to the crisis

From the Absa case, it appeared that at times, the head of media communication had different views from that of other members of the crisis team - such as the head of the legal department. The head of media communication has, as a key concern, the reputation of the organisation, while the head of legal has the letter of the law close to heart. Sometimes this may mean making decisions to protect the Group's reputation at a financial cost to the company. In Absa's case, it meant refunding the customers in confirmed cases of identity theft, even though, from a legal perspective, Absa was not liable. The tension between members of the crisis communication team could be seen as healthy, in that each member has an agenda to defend, and the crisis can be viewed from all perspectives. By having different representatives as members of the crisis communication team, the organisation can be assured of a comprehensive view of the crisis and can address possible consequences of communication decision taken in advance.

A.3.3 React quickly, be responsive to customer concerns

Absa's offer of free anti-virus software and extra security in terms of adding an online keypad followed a little too late after Standard Bank's similar offering. Absa could have perhaps have reacted more quickly to market concerns. The head of media communication at Absa explained: *We were a little on the heels of the other banks when it came to offering extra protection to customers for their PCs. We should have reacted more quickly.*

Nevertheless, Absa was flexible in its communication strategy and did respond to the changing needs of its audience as feedback was received through the media and directly from customers. Absa stepped up its activities to show care for its clients and started a strong consumer education campaign on how to protect one's identity on the internet. The head of media communication at Absa explained: *What also contributed to changing negative perceptions was that we changed our messaging. We started to communicate to our clients the tips of what and what not to do. Yes, keep your PC safe, but Absa will help you – here's a virus protection CD. You must always remember, you must be on the correct website, this is the address. Be careful on the net. Don't visit porn sites and download suspicious items otherwise you're going to get spyware. Don't open unsolicited emails. So what we've actually created at Absa is much more than internet banking. We actually created a much greater awareness over that period. People were saying: I was not very sure about these things, but now my bank, my big*

strong good bank is telling me these things and you know what, I feel safer now going onto the internet, so I'm going to get into it and I'm going to do internet banking. It's bizarre, but we grew our internet banking base faster than ever, because the awareness was so strong. So sometimes a crisis can work in your favour.

A.3.4 Be wise with your strategy

In a wise move, Absa made the internet fraud issue, quite rightly, an industry one – one that all banks needed to be concerned about. The head of Absa's media office explained how Absa called a meeting with its competitors, Nedbank, Standard Bank and First National Bank, as well as internet service providers to discuss the issue in an open forum. This strategy was conveyed to the media and helped to spread the spotlight from just being focused on Absa – to other banks.

A.3.5 Keep messages simple pitched at the audience

The head of Absa's media communication believes that messaging in a crisis must be kept simple, free of jargon, with two or three key messages at most to reassure customers. He also stressed that the communicator must know his/her customer.

We must remember that in our country, the average level of education of media consumers is standard eight. We've got to know where to pitch our crisis communications. If we're going to be very academic about it we're not going to

succeed. We've got to talk in very simple language with one or two, maybe three reassuring messages. The message has to be clear to everybody. The information should be clear and simple, not fact overdose. One or two or three facts are all most people, uneducated or not, can remember. Be honest and never be defensive. Admit, be honest. The moment you start resisting, you cause resistance on the other side.

A.3.6. Spokesperson likeability critical

In the early stages of the crisis, members of middle management were occasionally used as spokespeople. According to the head of Absa's media communication this was inappropriate. He believes that even though top executives are understandably busy, a senior executive should be the public face of the company, especially in a serious crisis because *a false impression given to the media can sink any organisation.*

During the period of the crisis, Absa broadcast a television advertisement featuring an attractive actor to express Absa's concern for its online clients. The head of Absa's media office considers this to be a mistake. He said that during a crisis, customers want reassurance from a top management person, preferably the CEO. Failing that, there should be a media spokesperson, who is known to the media and who will become known to the public. He explained: *In a situation such as this Absa should have followed the example set by Pick 'n Pay's CEO, Sean Summers,*

who faced the media during that company's extortion debacle. As a general rule of thumb, the policy should be to put a face to the crisis. Not simply the issuing of a press statement. Have a person talking to the people - on television, radio, in the press. Call a press conference. A face, a human person at the end of the day is worth much more and I think in hindsight, for Absa's internet fraud, if the CEO was unavailable, we should have had a face, a friendly, good, trustworthy person, talking to the public at large all the time, to say, guys we have this problem. Not your security expert because they are militarists, not your technical expert – you need a communicator, a facilitator, you need to give the people a warm and fuzzy – a message with integrity. Then people change their minds. Whenever you have a problem, put a face to it. That's what I say.

What would have been ideal was for Absa's CEO to have gone on camera. It shows the CEO knows what's going on. And the CEO is close to the customer. His messages must be managed correctly. He should have said something like: "Guys, I'm in charge of Absa bank and I've heard about this whole thing and let me tell you I'm deeply concerned for your safety if this is the truth. I give you my promise that I am doing everything possible to protect you. I'm the CEO and I will make sure it will be done." People want to speak to the man at the top. When people complain, who do they want to speak to? The CEO. It's human nature to want to talk to the boss. You don't want to talk to the secretary. You want to speak to the senior guy. It's human nature. Play on human nature.

The head of Absa's media office was emphatic that the media spokesperson should be the human face of the crisis and should face it head on. *Stand in front of the media – answer the questions honestly – repeat the messages – expose yourself – then the crisis will die down.*

He said that the only thing a company can do, especially if it has not built up good media relations before the crisis, is to select the spokesperson very carefully and make sure that the spokesperson is available to the media. *Therefore, if you do not have prior relationships with the media, the only thing you can do is to be honest, try and come across as nice as possible. In that way try and build the relationship. Use your most friendly face possible, the best communicator, even if it's not the CEO and this person has to run for days and days and talk to everybody. You need to create a friendly face so that people who see him or her will think: "They're not so bad." It must be a likeable person. Physical and emotional appeal is so important. The first thing that hits the mind when people look at an image is, is it nice, is it pleasing? Does it sound nice? The third element is what is being said. In that combination people will decide whether to listen to your message or not and decide how to perceive your company. It's all about public perception.*

A.3.7 Third party endorsement

According to the head of Absa's media communications, that which helped Absa to change the negative perceptions surround the crisis, was to get third party

endorsement, such as from international research company, Lafferty, the results of which made Absa look good in terms of having world-class security systems. The head of Absa's media communication said: *I think constant messages from independent sources such as Lafferty, helped to shift negative perceptions.*

A.3.8 Keep management calm

The head of Absa's media communication recalls that during a crisis, management, understandably, are under a lot of stress but they have to learn not to react to each negative statement made in the media. It is not possible to control what journalists will write in an article. He explained: *We do not control the media. This is a democratic society. If you pay for advertising, you can control every word, but not with editorial. It is only if the journalists get facts wrong that one can take them on. Otherwise, management have to remain calm and ride the media wave of negative publicity.*

A.3.9 Communicators must be given all critical information about the crisis

In Absa's case, it seemed that not all the facts were initially given to the communicators. Before the Sunday Times broke the story in the media, Absa's security experts who were already investigating the fraud should have informed Absa's crisis communicators that they were doing so, so that Absa's crisis communication team were not caught unawares. This would have given the crisis

communication team some time to plan a strategy and even to make the recommendation that Absa reimburse the affected clients so that they did not feel sufficiently aggrieved to go and tell their story to the newspapers. The crisis could have been averted in this way. Also, in this instance, Absa's spokespeople appeared to be a bit confused. The head of Absa's media office explained: *In a sense, we had to deal with something we didn't really understand because key-logging software only became known once it was used. Our security experts had heard about it in America, India and China. It hadn't really affected South Africa, so we didn't really think that this would hit us. So it hit us very quickly and caught us unawares.*

In a crisis such as this, it is necessary for the organisation's communicators to be informed thoroughly on all the issues surrounding the subject. Nothing should be withheld from the communicators and even the most probing questions should be answered as thoroughly as possible according to the head of Absa's media communication. Just as lawyers do not want any surprises in court and prepare themselves well in advance with the facts, the organisation's communicators do not want to be taken unawares by journalist reports. An organisation's communicators need to know every detail of the situation in order to prepare an acceptable communication strategy to the various publics.

A.3.10 Reputation prior to the crisis critical

The head of Absa's media communication considered Absa to be fortunate in that its history of having a strong, trusted brand reputation in the South African market helped it to get through the crisis. He believed that Absa had a reputation of having good strong leadership and a good vision, without which it would have been more difficult to deal with the crisis in the media. Absa is also very active in the communities in which it operates with its pervasive corporate social investment programme which lends goodwill to its name. The head of Absa's media communication explained: *If you hit a crisis and you don't have that image already in the market your crisis is going to be very severe because you have to put in much more resources to convince people that this company is under good leadership and that they will overcome this problem. When Absa hit internet fraud, we were seen as a very strong brand and that's the only thing that saved Absa's backside with internet banking. That people didn't have a run on the internet bank was because of the strong brand. We really were not seen as that innovative or technologically advanced. Our competitors were seen in that light more than us. But people had trust in this brand - the Absa brand is very strong. Yes, branding is very important but if you do not communicate all the other things that you do, such as corporate social investment initiatives, your crisis becomes so much more difficult to manage.*

A.3.11 How a crisis can force a positive change in the perception of a company

The crisis forced Absa to roll out a programme of security enhancements to help clients to protect their identities on the internet. Prior to the crisis Absa was not really perceived as innovative or technologically advanced, but the Group's response to the crisis has put its security systems in line with world class standards. This is clearly an example of how a crisis can be good for a company. According to study conducted by independent research house, Lafferty (2003), Absa's security measures have been ranked by experts as being amongst the best in the world. Although the crisis was a public relations nightmare for Absa, it spurred a renewed focus on internet security and the rules governing the industry. *New laws introduced to govern cyber crime could be tested in court for the first time when the Absa hacker comes to trial. Perhaps the Absa case will be the spur to establish a body of cyber inspectors (Business Day 2003:3).*

A.4 Conclusion

Absa learnt valuable lessons from the identity theft crisis. Customers must come first regardless of the legalities of a situation. Customer reassurance and empathy are important as is prior education of customers. All strategies must take these important factors into consideration. In spite of having good media relations prior to the crisis, journalists will take the organisation to task if it is not seen as having

customer needs as a priority. In addition, the choice of spokesperson is critical, especially in a situation as serious as this in which the safety of customer money (the core business of the bank) was in question. Absa learnt also not to be defensive on the issue. Instead it took the strategy of informing the industry of the first cases of identity theft recognised in South Africa, and started a bold education campaign to customers. This helped to dissolve the negative coverage. The fact that Absa is a trusted brand in the consumer environment in South Africa also played a big role in helping it to retain the loyalty of its customer base, and even growing it, in spite of the crisis.

A good outcome of the crisis for the industry is that the banks and internet service providers started to become more pro-active in advising clients of the latest trends in security and in providing educational tips and tools to assist clients. The average consumer had been ill informed prior to the publicity Absa received during this crisis.

Actual print media coverage of the Absa internet “hacking” crisis drawn from the Web

July 2003 – October 2003

National Newspapers:

- Business Day
- Business Report (The Mercury, The Star, The Saturday Cape Argus, The Pretoria News, Cape Times, Sunday Tribute, The Sunday Argus, The Sunday Independent, The Saturday Star and The Weekend Argus.
- Business Times (Sunday Times)

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Hacker cleans out bank accounts

Hundreds of thousands of rands stolen via Internet from Absa clients.
By Edwin Lombard

A HACKER is targeting clients of South Africa's largest bank and has managed to steal hundreds of thousands of rands by breaching their accounts over the Internet.

The Police Commercial Crimes Unit confirmed this week it was investigating nine cases involving thefts from Absa accounts. Absa is the leading South African Internet banker with about 35% of the market and about 300 000 online clients.

Police and bank officials say it appears the perpetrator used "spyware" to gain access to the personal computers of the victims, and, having found out their Internet banking information, had transferred money out of their accounts.

Total losses of R230 000 have been reported to police - but one victim said late on Friday that he had discovered another R300 000 missing from his account.

Another victim, Helene van Tonder, a bookkeeper from Bellville, said her whole R15 000 salary had disappeared from her bank account the day after she was paid.

"When I went to the ATM on June 27, all my money was gone. When I contacted the bank, they said I must go and lay a charge at the police."

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knew that there was only one perpetrator.

"It is a hacker. The police are following up extremely good clues," he said.

Absa refused to refer to the culprit as a "hacker" and would only refer to the crime as "identity fraud" committed by a person who had gained access to clients' accounts through their own personal computers using the Internet.

Absa's group information security officer, Richard Peasy, said the bank's "security systems and processes had alerted the bank to suspicious activity before these clients knew about it.

"The transactions were frozen and the process for dealing with potentially fraudulent transactions was instituted," he said.

However, attorney Harry de Villiers said R300 000 had gone missing from one of his trust accounts when he went to check his statements on Friday. Fortunately, his trust accounts were insured. He said the bank had only alerted him to R10 000 that was mysteriously transferred into one of his accounts earlier in the week.

De Villiers made a report to the police late on Friday. His complaint is in addition to the nine already being investigated by the police.

He said when he checked his accounts more closely later, he discovered that the hacker had transferred amounts of R227 000 and R93 000 to another account.

De Villiers said further inquiries revealed that the person had bought 15 laptop computers by transferring some of the money into the account of the computer company and the rest into an account at a different bank.

Peasy said the crook had gained access to personal information of account holders through their own computers and said it had nothing to do with the bank.



He said the bank had already identified suspects and Absa's forensic team was working with the police.

"As with other banking channels, no fraud can take place on Internet banking accounts without the fraudster obtaining the client's Internet banking access account number and PIN number," he said.

Hotmail mailbox," he said.

Peasy refused to say how many Absa clients had been defrauded or how much money was involved, saying it was "a forensic issue".

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ID theft at Absa is a first in SA crime logs

By Edward West

Cape Town - The theft of the identities of three Absa customers to access their internet banking accounts appeared to be the first crimes of this kind in this country, but a recent survey in the US has claimed that 7 million American adults have been victims of identity theft over the past year.

Richard Peasey, Absa group information security officer, said it was too early to say the crime had been nipped in the bud and it was unlikely all banks and institutions would admit to being affected by this kind of fraud.

Nevertheless, Absa and the rest of the banking industry were working together to combat this new crime. Absa's own internet banking security had not been breached.

Absa's share price dipped 20c to R35.80 yesterday, but it sank as low as R35.40 in early trade this morning in reaction to news that three Absa clients had money removed from their accounts after a fraudster managed to gain unauthorised access to their computers and load software, called key-stroke logging software, which automatically copied everything they typed on their computers and sent it back to the fraudster without their knowledge. A further six cases were under investigation.

An analyst said bank shares were generally lower yesterday on profit taking, as the sector had risen relatively strongly in the past few weeks.

Roland le Sueur, internet banking head at First National Bank (FNB), said security on FNB's internet banking system had not been compromised.

Apart from security awareness programmes, FNB notified clients by SMS every time a banking transaction took place, a unique procedure in the local market which greatly added to security for the client.

A statement from Standard Bank said: "To our knowledge, we have not had an event similar to the Absa incident." The bank stressed that clients should always protect their PIN numbers and password.

Gartner Research, the world's biggest technology research house, said a survey in May showed that about 3.4 percent of all US consumers, or 7 million adults, had been victimised by identity theft last year. Only 5 807 arrests were made by the FBI, the US Secret Service and the US Postal Service in 2000, the last year of available data.

"Even if it assumed that arrests doubled ... which is highly unlikely ... the criminal still has a one in 700 chance of getting caught by federal authorities," the research note said.

Research in the US showed that more than half of all identity theft were committed by criminals who had established relationships with their victims, such as family members, roommates, neighbours or co-workers.

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2003/07/22 12:00:00 AM

Online banking faces security crisis

Clients who use internet facilities must be vigilant about releasing their details

Lesley Stones

Information Technology Editor

ANYONE who has ever tried to educate computer users will tell you how utterly dense the average user can be.

So dense, perhaps, that hackers trying to siphon money out of bank accounts have realised it is easier to target end-users than to crack the highly secure systems of banks.

Which is precisely what has happened to several Absa clients, who had money drained from their accounts by a hacker.

Banks are keen to grow their online operations as electronic transactions are far cheaper to process than face-to-face transactions.

So they have made security a top priority, since the slightest evidence that internet banking is unsafe can create devastating publicity, huge losses and an instant slump in online activity. Yet consumers who fear an online rip-off are remarkably sloppy about security.

Just as it took only a few muggings at ATM terminals to make people take precautions to protect their cash, the Absa attack will put the onus on customers to protect their online activities.

Absa has played down the incident, saying only a few clients were hit by what it dubbed "the latest international trend in internet fraud — identity theft".

Moreover, it is subtly blaming end-users, saying internet banking is safe as long as clients are vigilant.

While that sounds like arrogance, it is the truth, says Patrick Evans, regional manager for

The Absa fraudster culled e-mail addresses and sent them a message including an attachment containing a Trojan horse — a code that enters the user's system and sends information back to the hacker. The code included keystroke logging software that sends details of every keystroke entered by a user back to the hacker.

Once the word "Absa" appeared in that string of data, the hacker could analyse the subsequent letters and figures to determine which were the personal identification numbers (PIN) and account numbers.

The attack sounds sophisticated, but it is easy to thwart, says Evans. However, it takes more than basic antivirus software.

"Antivirus software accounts for 90% of the security software bought in SA, whereas in the US and Europe an integrated security solution accounts for 50% of sales."

More sophisticated programs cost R500 to R750, and can add a firewall to keep out unauthorised users; intrusion detection software to warn if anything untoward enters the system — and privacy protection to encrypt transactions. Together, they would have prevented a Trojan Horse from being installed.

Evans says it is odd that only Absa customers were attacked, as an e-mail sent randomly should affect people using rival banks.

"I would not be surprised if other banks are hit in time," he says.

Someone with inside knowledge may be involved, which would explain why only Absa clients were targeted in this case.

Absa's information security officer Richard Peasey says information security officers at all of SA's banks will now co-operate to find ways to prevent this crime.

"Fraudsters are beginning to realise how difficult it is to breach bank security systems and are now targeting the computers of account holders by stealing their electronic identity, mainly their PIN and access account numbers," he says.

Standard Bank stresses that although it strives to ward off emerging threats, end users must protect themselves by being more alert and disciplined. They must regularly update antivirus software, not open suspicious e-mail, practise "safe surfing" by not following links to unknown websites and be cautious of computers with public access. Customers must accept that there is a trade-off between ease-of-use and greater protection, agrees Jenny Gray, CEO of electronic banking at FNB. Users can opt for tougher measures, including activating a digital certificate for each transaction. That activates software specifically installed on one PC, so nobody can infiltrate their account from a different PC.

Research by Gartner analysts shows that 7-million, or 3,4%, of US consumers have been victims of identity theft in the past year. Identity theft is when private information such as a driver's licence number, credit card number or bank account details is stolen. The data is

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Internet fraud

THE theft of hundreds of thousands of rands from Absa bank accounts via the internet raises numerous concerns both for consumers and for banks. However, it should be borne in mind that internet banking is no more immune from fraud than any other financial transaction, be it credit cards or cheques.

The banks have made major efforts to secure their own systems, as electronic transactions happen so quickly that immense amounts of cash could otherwise disappear in a couple of keystrokes. But just as security cameras in the city centre have driven crime into the suburbs, so tough security within the banks has made the thieves look elsewhere. End users are now their vulnerable victims.

The remarkable thing about the recent attack on Absa bank accounts is that so few people have been hit, and for modest sums. Only nine victims have emerged, losing a total of R530000. Devastating enough for the individuals, but small change in the world of banking theft.

Moreover, the hacker is bound to have left a trail, because that money must have been moved into other accounts or paid to merchants who will have a record of the buyer. While the police are saying little, the leads should be strong.

Yet an arrest will not end the crime, as the technology used by the hacker is freely available. Copycats will already be sending e-mails to innocent users to secretly install keystroke detection software into their computers. Once each keystroke is recorded, it is not difficult to figure out which strings of letters and figures form a password and account number.

Banks constantly scrutinise their accounts for unusual transactions. But since the hacker used the genuine name, account number and PIN of the victim, they had no immediate reason to be suspicious.

Which puts the primary onus on end users to protect themselves. Thus, instead of merely asking what the banks are going to do about it, users should also ask what they can do to protect themselves.

for customers to operate online as electronic transactions are cheaper to process. But in the quest to woo more users they have glossed over the need for clients to attend to their own security.

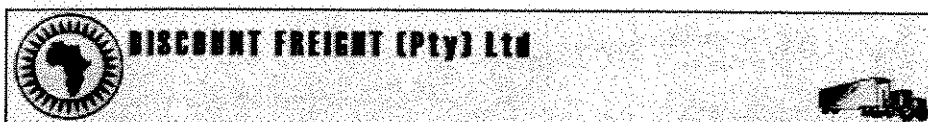
Their websites may let a user click through to advice about internet safety precautions, but it is often not the first thing one spots when going online. Nor are users rejected if they do not promise to install the necessary software to protect themselves.

The banks, perhaps, have assumed a level of internet intelligence that the average customer does not possess. And it is all too easy for banks and customers alike to presume that a hacker will never target them.

The banks must educate consumers. For a start, they should highlight the different forms of security available, such as firewalls, intrusion detection software and encryption technologies, and perhaps even subsidise the costs in the interests of good governance.

Most computer users accepted the need to install antivirus software as the wave of destructive viruses increased. Now we have the first victims of hackers siphoning off money by using stolen identities.

There is no need for a knee-jerk reaction of closing down an internet account. But consumers must recognise that virtual banking can also be hijacked by criminals.



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Absa sticks to its guns despite scepticism

By Roy Cokayne

Pretoria - Banking group Absa yesterday stuck to its original version of how a fraudster gained unauthorised access to, and transferred funds from, the internet bank accounts of three of its clients.

Some information technology experts are sceptical of Absa's version of how the internet fraud was perpetrated as all three confirmed cases were in a small geographical area.

Richard Peasey, Absa's group information security officer, said yesterday that the police were still leading the investigation, in co-operation with the bank's forensics team.

"The fact that fraud was committed within a small geographical area is also forming part of the investigation that has not been completed yet," he said.

Peasey said at the weekend an investigation by the bank had confirmed that so far only three clients in the Western Cape had had money moved from their accounts after a fraudster gained unauthorised access to their computers. He said a further six cases were under investigation.

Peasey said the fraud had been committed by loading "key-stroke logging software", which automatically copied everything clients typed on their computers and sent it back to the fraudster without their knowledge.

The fraudster was able to use this information to impersonate electronically the clients and gain access to their bank accounts.

But because of the small geographical area, there has been speculation the fraud was perpetrated by spyware software that was loaded when the victims' computers were being repaired, or even of a card plug being attached to an Absa internet terminal which intercepted the communication between the terminal and Absa's system.

Walter Smuts, the managing director of Expertron, in which listed technology group Grintek has a 30 percent interest, was surprised the frauds were limited to a small geographical area.

"You would have expected no geographic limit because the internet has no limit in terms of geographic area," he said.

Expertron has developed an internet-based security product called Cell-ID. It is a user-authentication system that uses a person's cellphone to prove his or her identity.

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Asked what specific security measures Absa used to prevent keystroke logging, Peasey said Absa acknowledges the desperate need to move to the next level of security and the bank continuously assesses ways of improving security.

A major United States bank, Wells Fargo, which has 3.3 million customers, uses exactly the same online banking system as Absa, he says.

No Absa online customers have closed their accounts, Peasey says. In fact, just over 1 200 new clients signed up for internet banking at Absa this week, he says.

Liability

Von Hoesslin says while the bank is liable for any losses from your accounts due to unauthorised access into the bank's systems, internet banking users have a responsibility to ensure that their PCs are secure.

The problem is that the bank has no control over what online customers do and over the security of their computers, so online customers must take some responsibility.

Von Hoesslin says because of the complex nature of internet banking, Nedbank will always consider each case on its merits.

Roland le Sueur, the head of internet banking at First National Bank, says the bank cannot be held responsible for what happens on your personal computer. Just as the bank takes responsibility for the security of its system, consumers must be responsible for the security of their PCs.

Banks say that they provide information to online users to assist them with ensuring security on their PCs.

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Two men linked to Absa hacker case

Edwin Lombard and Jeanne van der Merwe

Two men worked together in an elaborate plot in the sensational Absa bank account hacking case, the Sunday Times can reveal.

The Sunday Times has pieced together their modus operandi from witness accounts, revealing how they converted digital loot into valuable goods in the real world.

One of the men is a 42-year-old financially-struggling computer programmer from Durbanville. He collected the expensive computer and electronic goods that were bought with some of the R500 000 that was removed from Absa bank clients.

Police have been given video footage of him collecting the 15 laptop computers and carrying them off.

The items were paid for by internet transfer. Both stores which innocently recieved payment of the stolen money had their accounts frozen this week, in an urgent interdict brought by a victim.

Meanwhile, another man, whose name is known to the Sunday Times, sent the e-mail which unleashed the "spyware" which allowed bank account holders' identities to be stolen and their accounts looted.

The Sunday Times has confirmed the man, who

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yesterday that a 35-year-old divorced man from Ridgeworth in Belville had been arrested and now charged with 10 counts of theft and fraud.

The man - who had a computer background - worked at a guest house, said Du Toit, and added that he would appear in court where police would ask for a postponement.

Police want more time to investigate, in particular, to decide whether to charge others as accomplices or to use them as state witnesses.

Outside the police cells yesterday, the man's attorney, Sakkie Maartens said his client would appear in the court tomorrow .

He said his client was "doing fine." "He is not planning on cutting his wrists right now".

While police kept mum on the inquiry, the hacker's victims told the Sunday Times about the information they had been given by investigators.

The first victim, Katja Hiller-Staal, the manager of a guesthouse in Bellville who lost R30 000 on May 12, said her computer had been examined by Absa bank forensic investigators as well as officials from an audit firm.

Hiller-Staal said Absa's forensic officials asked her whether she had received any suspicious e-mail.

"They went and checked and found a joke e-mail titled J J Fourie on it. They then asked if I didn't know a 30 to 40-year old white, bald Afrikaner man with spectacles. I said I didn't."

Meanwhile, attorney Harry de Villiers, from whose account about R300 000 was taken, said he was also asked questions about the same man by auditors who downloaded the e-mails from his computer.

Absa would not comment on the investigation.

Hazel Deyzel, the owner of Zentek electronics, from whom 15 laptop computers were paid for over the internet, said a "white man of about 38 with brown hair" came to collect the laptops. She said he signed the invoice and left his ID number with her.

She has handed over video surveillance footage o the

Orcom's attorney Wikus Vorster, said his client became suspicious over the transaction and insisted on a copy of the man's ID.

He said they handed over the details of the man to the police.

The Sunday Times has established that the ID number belongs to a computer programmer, with a history of bad debt whose last address was at a complex in Durbanville.

He was not at the address this weekend.

Meanwhile, De Villiers brought an urgent interdict in the Cape High Court this week asking the court to order ABSA and BOE to freeze the bank accounts of the two companies who provided the goods.

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Banks counter fears of online banking fraud

Richard Stovin-Bradford

Banks have moved to boost customer confidence in their Internet banking platforms following last week's discovery that someone had accessed funds in three Absa Internet banking accounts.

The fraudster gained access to the clients' Internet identity code and personal identity number through the use of e-mail-borne spy software, or spyware, to track keystrokes on the clients' keyboards.

Absa is the country's largest provider of Internet banking, with 405 472 clients. It said that police had arrested a suspect on Thursday.

This latest consumer security threat lies with the client and not the banks' systems.

However, banks are anxious to maintain customer confidence in their Internet banking platforms and have all reminded customers of the basic online security measures they should adopt to protect their personal information.

Standard Bank went as far as offering a year's free firewall and anti-virus software to existing and new customers, who will subsequently pay a discounted fee for the service.

Standard Bank introduced an onscreen "Pin pad safety

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Absa hacker's sidekick says no bank is safe

Edwin Lombard

A computer programmer admitted this week that he had helped the alleged Absa hacker.

Peter Hanekom, 42, a computer programmer from Durbanville, Cape Town, told the Sunday Times he was the man identified by store owners as the person who picked up goods allegedly bought with money stolen from Absa account holders through the Internet.

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South Africa's banking world has been rocked by the scandal, in which about R500 000 was stolen. Other banks moved to improve security in the wake of the affair.

Hanekom said he had intimate knowledge of how the scam was pulled off - and claimed he could crack the banks' new defences within seven seconds.

Johan Fourie, also a computer expert, was charged this week with 10 counts of fraud and theft in connection with the Absa case. He has not been asked to plead.

Hanekom claimed he could crack Standard Bank's new Internet security measures, which include providing clients with free antivirus software and having customers enter their PIN numbers using a mouse.

"The new procedures are bulls**t. I can break that in seven seconds. I've just proven it to myself." Hanekom

Herman Singh, in charge of electronic banking at Standard Bank, said he was not impressed with Hanekom's claims. He believed the bank's measures would be enough to deter hackers.

"We are not saying it can't be done. You just become a target if you do. All these [security breaches] are theoretically possible, but we are saying that they are practically improbable."

Singh said the bank had issued all its customers with free anti-virus and firewall software.

"The firewall acts as a barrier and tests every piece of code coming into your computer, making sure it's clean," he said.

Alfie Naidoo, head of electronic banking at Absa, said his bank could not comment on the police investigation or on why Hanekom was making his claims. But, he said, Absa had announced measures to protect its online clients. These include providing free antivirus software and a pop-up keypad on its webpage.

But, said Hanekom: "I know way more than you think I know. I know way more than I should know. I have intimate knowledge of the origin and engineering [of the hacking scheme]," he said.

He was spotted by video surveillance cameras at an electronics company, picking up 15 laptop computers and paying for them with R227 000 transferred via the Internet. He was also seen picking up three home-theatre systems from a shop in Durbanville. In both cases he left his identity number.

Police arrested Fourie, 35, at a guest house in Durbanville last week. He will appear in court again tomorrow for a bail hearing.


Hanekom claimed he was a victim of the scheme and, although he had intimate knowledge of how the transfers were done, did not take part in the actual fraud.

He said clients that he dealt with as a computer programmer had shunned him after connecting him with the fraud using the details published in the Sunday Times last week.

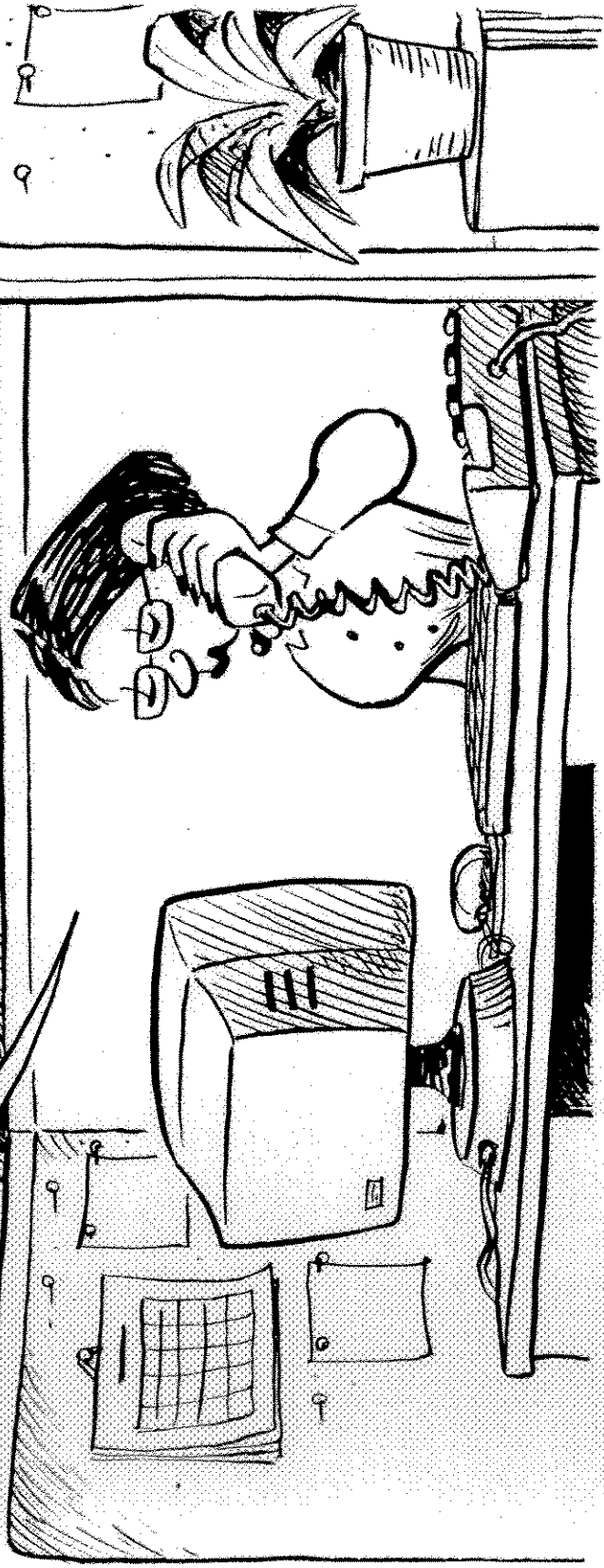
Police spokesman Riaan Pool said police could not comment on Hanekom's claims as investigations into the case were continuing.

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Alleged Absa hacker's secrets revealed in court

Edwin Lombard

The first details of how the man accused of being the Absa hacker allegedly stole money from bank accounts over the Internet emerged in court this week.

Johannes Fourie, 35, allegedly raided accounts held with FNB as well as Absa and used the stolen cash to buy gold coins, home theatre systems and 15 laptop computers, all worth hundreds of thousands of rands, with a computer program that cost a mere 100.

Called eBlaster, the program is advertised as a product that allows users "to know exactly what your employees or family are doing on the Internet, even if you are thousands of miles away".

But in Fourie's case, prosecutor Anthony Stephen alleged eBlaster gave Fourie the passwords to at least 14 bank accounts held by Absa and FNB clients, from whom the Durbanville computer programmer allegedly transferred about R106 000 into two accounts of his own.



Broke: Johannes Fourie, whose mother is paying his lawyer

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Wearing a blue-and-green windbreaker and spectacles.

Your PC, your responsibility, say banks

By Charlene Clayton

Inadequate security on your personal computer, or PC, that you use for internet banking is the equivalent of putting your money on the pavement outside your house and hoping that nobody takes it.

This is the view of one computer expert commenting on the hacking into personal computers of Absa online accountholders who lost more than R500 000 this week.

Three Absa clients in the Western Cape lost money and a further six cases are under investigation. The other big banks say that none of their clients have been affected.

The fraud took place via the Absa clients' PCs and involved the theft of their electronic identities to access Absa's website and transfer money out of clients' accounts.

Although Absa is still investigating precisely how the fraud took place, it is believed that the fraudster downloaded a type of computer virus, called a Trojan, which was transmitted on to the accountholders' computers when the accountholders opened an email from the fraudster.

A suspect has been arrested.

According to Richard Peasey, Absa's group security information officer, the virus, or "spyware", records keystrokes, such as your account number and personal identification number, and then emails the information to a hotmail mailbox used by the fraudster. Hotmail is a free internet-based email service.

Peasey describes this hacking method as "the latest international trend in internet fraud". However, according to information technology experts "spyware" has been around for the past 15 to 20 years.

"Every teenage wannabe hacker has made use of spyware, which is freely available off the internet," says one expert.

Absa is shifting the blame to the end user by claiming that the bank's security was not compromised, but rather that spyware software was activated on the client's PCs, he says.

Peasey says what he meant was that it is the first time in South Africa that online fraud has been perpetrated using keystroke logging.

All of the major overseas banks that offer an online banking facility are well aware of the use of spyware and have for many years protected their clients against such attacks, the computer expert told Personal Finance. In addition to the usual security measures employed by local banks, overseas banks have their customers choose a "memorable" word or phrase. On each log-on attempt, the final authorisation comes from the bank's server requesting random letters from the memorable word. Even if your computer is infected and your keystrokes are being logged, it won't allow the hacker access, because the hacker won't know what random letters you will be asked for at the next log-in, because the hacker won't know your memorable word.

Locally, Nedbank uses a method which it says protects you against keystroke logging. Each time a new beneficiary is added to your account or a once-off payment is made to an account held at another bank, a unique reference number is sent via SMS to the accountholder's cell phone. This reference number must then be used by the accountholder to authenticate the transaction. A different reference number is sent each time you add a beneficiary or make a once-off payment.

Because the SMS feature operates independently of the client's computer, it becomes impossible for the security to be compromised by fraudsters using keystroke logging.

ANNEXURE B: A CASE STUDY OF A HOSTILE TAKE-OVER ATTEMPT OF STANDARD BANK SOUTH AFRICA BY COMPETITOR BANK NEDBANK SOUTH AFRICA

B.1 Purpose of this chapter

The purpose of this chapter is to examine the crisis communication strategies to the media employed by Standard Bank (Stanbic) and to analyse the media coverage surrounding the well-publicised take-over bid by Nedbank (Nedcor) of Standard Bank in 1999. This was considered to be a big crisis for Standard Bank as the media and the market were initially in favour of the take-over, to which Standard Bank was completely opposed. Information gleaned for this chapter was obtained from archived media reports and from two separate interviews with the head of Standard Bank's media office and the chief advisor to Standard Bank from a respected communications firm who was responsible for advising Standard Bank on how to deal with the crisis. The full story of the crisis is described in the section that follows.

B.2 Full story

On 15 November 1999, Nedcor Limited, a South African bank, made an unsolicited bid for Standard Bank Investment Corporation (Stanbic), its larger rival. If the bid had been successful, it would have become South Africa's biggest merger in the financial sector, at that time. The new *super bank* would have been *95 per cent larger than its nearest competitors* (Business Report 2000: 1). The media interest was intense during the entire period of

the protracted year-long crisis and sensationalist headlines fuelled public debate about the issue.

Stanbic rejects Nedcor's merger overtures (Business Report 1999:1)

On 25 November 1999 Stanbic started its public defence against the merger in the media. The chief executive of Stanbic, Jacko Maree, put forward the following arguments against the merger: the premium offered by Nedcor for Stanbic shares was too low; the performance forecast for the proposed merged entity too optimistic, and the implementation risk too high. Referring to a recent study of US bank mergers, Maree argued that earnings for the two years following completion of a merger are always below expectations. He avowed that hostile takeovers are more likely to end up as partial or complete failures if the proposed merger is *not friendly and negotiated* (Business Report 1992). He postulated that Nedcor did not have the required experience to integrate the computer systems of both banks and that should the merger go through, there was a threat of 10,000 job losses that would take its toll on employee morale and performance. Moreover, since only some staff reductions would take place through natural attrition, those threatened may choose to strike, a tool often used in South Africa, or key officers at Stanbic may leave the merged entity.

In contrast Nedcor, led by its chief executive Richard Laubscher, brandished an attractive ROE of 30% for the proposed merged entity and listed several unfavourable events that had hit Stanbic over the past year and negatively affected its value. Nedcor's arguments in favour of the merger were the

following: cutting excess capacity and using lower cost-platforms would result in a stronger capital structure of the merged entity. Nedcor further argued that domestic mergers remained the norm worldwide and that building a national champion in South Africa with a market capitalisation of R57bn and assets of R270bn would be a good idea. Nedcor explained that it would be preferable to have a local merger and cautioned that if the merger did not go through, an international player would grab the opportunity instead (Business Report 1999:3).

In the two weeks after Nedcor's announcement, the share price of Stanbic remained fairly stable but the share price of Nedcor fell by some 3.5%. This reflected the fact that Nedcor's shareholders were actually more concerned about the consequences of the merger than their counterparts at Stanbic. This is not surprising perhaps given that the performance of Nedcor at that time was superior when measured in terms of operating profits (a compound annual growth rate of 24% for Nedcor against 11% for Stanbic between 1994 and 1998), cost-to-income ratio (56% for Nedcor against 62% for Stanbic) and return-on-equity (ROE) (21% for Nedcor against 16% for Stanbic).

Towards the end of 2000, Finance Minister Trevor Manuel eventually ruled against the proposed merger. This was a victory for Stanbic, whose counter-offence, over a protracted period, against the merger proved successful. The crisis brought Stanbic and its new management team into the limelight and since then, the Group has been on a steady climb to centre stage in the media and in banking circles as a whole. Stanbic had proved to the market

that it had a good growth strategy and could deliver good returns without having to merge with Nedcor.

Geoff Candy (2004), banking journalist from Moneyweb in a retrospective look at the crisis, wrote the following: *When Nedcor announced its bid for Standard Bank in late 1999, many people believed it was the end of Standard Bank, which at the time was trading at around R19. Six years later the bank has survived a hostile takeover attempt, seen its share price jump almost four fold and, pipping another banking giant FirstRand to the post, is the sixth largest stock on the JSE with a market capitalisation of R93 billion. By contrast, Nedcor has, since losing the merger bid, fallen into disrepute. Once the darlings of the sector, the Group seems to have made one strategic mistake after the other. Its CEO at the time of the merger bid, Richard Laubscher, has since left the Group and a new team at Nedcor headed by Tom Boardman, is currently trying to turn the company around. Although now the poor cousin of the South African banking community, Nedbank once ruled the roost trading as high as R163 before falling ignominiously from grace. This fall was precipitated by an ill-advised hostile bid for Standard Bank and a disastrous involvement in Dimension Data shares. At the end of 2004, the group announced a three-year plan designed to clean up its balance sheet and streamline the business.*

B.3 Analysis, comments and insights into the crisis

This analysis was co-constructed by the researcher from two separate interviews: one with the head of Standard Bank's media office and one of the

partners at an international public relations firm, who was brought in to advise Standard Bank on how to deal with the crisis.

B.3.1 Context/history important

At the time of the crisis for Standard Bank, its suitor, Nedbank, was doing well financially and had excellent media relations. Its CEO Richard Laubscher, was well respected in the sector and the media initially covered the bid in Nedbank's favour. Laubscher was even named Business Report newspaper's top business newsmaker of 1999. In contrast, Standard Bank had no real media relations profile to begin with. The timing for the bid by Nedbank was thus perfect. The advisor to Standard Bank explains: *So if I think about the Standard Bank bid to start with. We were not advising Standard Bank when Nedbank launched their bid. We were approached subsequently and by the time we arrived, Standard Bank were very much in that sort of scrambling mode because they were under attack and they were so completely on the back foot. Now, the timing of the bid was perfect because Nedbank were the darling of the sector. Richard Laubscher was this hugely charismatic man and those people are very difficult to fight in the press because those people have got fantastic relationships and they've got a lot of good will and he was very glamorous and very charismatic and the management of Standard Bank at that time hadn't built any relationships with the press. Their rating was at an all time low because they had spent a lot of money on their franchise and had spent a lot of money in Africa. They were spending money internationally as well. They were basically in fact spending money on the stuff that has come through for them now (in 2006), but they did that seven, eight years ago. So*

their cost-to-income ratio was huge and Nedbank's cost-to-income ratio was very, very, very low at that time. But I think what came to pass in that bid was that Laubscher had pretty much cut all the muscle out of Nedbank and was looking for a strategy for growth. He didn't have one. His business had run out of road and he needed to buy Standard Bank and he came at absolutely the most perfect time because his currency with the market and with the press was very high, Standard Bank's was at an all time low.

This context formed the backdrop of the challenges that the communications team had to cope with. The strategy was to try and get the media on the side of Standard Bank to use the media as a tool in the fight against Nedcor which was a high expectation considering the context described.

B.3.2 Strategic decisions taken by the business that help or hinder the communication strategy

One of the strategies employed was to attack the business proposition made by Nedbank as justification for the take-over. Standard Bank had to convince the market that it had a sound growth strategy and that it could deliver better shareholder returns than if Nedbank bought Standard Bank. A few strategic decisions made by the business assisted the communication team with this task. One of these strategic decisions was that Standard Bank, just after the crisis started, changed their CEO from Mike Vosloo to Jacko Maree. This proved useful because it provided a new positive story to take to the media – there was a new management team at the helm, one that didn't have the

legacy of having to explain a lot of the previous regime's actions. This worked in Standard Bank's favour. This decision was reflected in newspaper reports: *Stanbic shores up merger defences. The besieged bank is to beef up its top team* (Business Times 1999:1). *Stanbic takes Transnet boss and Stals on board* (Business Day 2000:1). While the press were initially on the side of Nedbank, they quickly got to like Maree, the new CEO and this proved enormously useful.

The advisor to Standard Bank explains: *Now, Standard Bank did a couple of clever things very quickly which had nothing to do with the communications and that is that they changed the CEO. They changed from Mike Vosloo to Jacko Maree. Jacko then came on. So to a certain extent you started with somebody who didn't have the legacy of having to explain a lot of the actions that had taken place and by making that change you immediately had a positive story to go onto the front foot with. There were two strategies: one of going on the front foot and telling the new story. It was tactically very fortunate that we could go with a new story and a new management team. And the second one was to attack Nedbank's business proposition. Now a lot of people say that the reason Standard Bank got away from Nedbank was just because the competition commission ruled against it. Now I do disagree. I do think that Standard Bank managed to convince the market that it had a good growth strategy and that it could deliver better shareholder returns than Nedbank buying Standard Bank. But I do think the competition commission thing was the death blow to the transaction. If I think about the sort of things that we did, I have to be truly honest – I truly think that the communications*

was a key part of the defence but it wasn't the only part and I don't think it was necessarily the most important part. They had very good investment banking advice and the way they managed the shareholders was particularly good.

This comment is fairly significant as it makes the point that the role of communications is assisted, or by implication, hindered, by the decisions taken by management. It was fortunate that Stanbic management made wise decisions throughout the merger bid, decisions that the crisis communications team could capitalise on.

In contrast, the Nedbank team had to put up with ill informed decisions taken by their management, one of which was that the CEO, in the end, stopped listening to advice from his communications team. The advisor to Standard Bank explains: *I heard, from a senior peer of mine at Nedbank, that towards the end, Richard Laubscher stopped listening to anybody. He stopped listening to his advisors and very early on he stopped listening to the media communication team. He felt that he knew more than them, that he had better relationships with the journalists than they did. He was on such a big ego trip. So I do think that often in crises if you're the kind of person who doesn't listen to your advisor. .They (Nedcor) actually changed advisors half way through as well, which I think was very damaging for them. They had outside people as well, much like Standard Bank but without the experience that the team had who came down from London to support Standard Bank.*

B.3.3 Attitude of spokesperson/company important

Even though the new Standard Bank CEO had not established positive relationships with the media prior to the crisis, because he was appointed just after the crisis broke, his likeable personality soon earned him favour with the media. He also made himself extremely accessible to the media. The head of Standard Bank's media office explained: *Also, the press were, in the beginning, very much on the side of Nedbank but they quickly got to like Jacko. I mean as an individual, Jacko made himself incredibly available and I guess that's rule number one. He came out of the background. He was the new CEO and he was just available to any journalist who wanted to talk to him and he has a very engaging personality and he also has charisma and he managed to claw back very quickly some goodwill in the press just by doing that.*

It is clear that the likeability of Standard Bank's CEO and his open door policy with the journalists, even without a history of prior good media relations, was an important factor in facilitating the success of Stanbic's counter bid in the media. Although Nedcor's CEO, Laubscher, had a good relationship with the media, he became increasingly inaccessible and arrogant, as previously mentioned, which did damage to Nedcor's reputation. The arrogance and determination of Nedcor to proceed is reflected in the following headlines: *Nedcor blows its IT trumpet* (Business Report 2000:2). *Nedcor launched a new charm offensive yesterday aimed at reviving lagging interest in its bid for Stanbic* (Business Day 2000:4)

Humility and honesty were very important in winning the media over to Nedbank's side. Journalists do not respond well to arrogance. The advisor to Standard Bank explained: *And then the third thing was that we were honest in the sense that in every engagement with the press we were very careful to always talk about the things that we had done wrong in the past, so we were honest and humble which they found appealing...It wasn't like we were aggressive/defensive when we came back. Like a lot of companies, particularly if the management are also responsible for a lot of mistakes that have been made in the past that have resulted in them being vulnerable, can be very defensive and not acknowledge that shareholders or press or anybody have a reason to be unhappy whereas with Jacko he said, yes, we have been spending money, our cost-to-income ratio is very high, but there are very good reasons for that and maybe we've made some mistakes in some areas but we will rectify that. I think people got a sense of humility but a sense of new vigour in the business which I think people bought into. So I guess just those three rules: Jacko was very accessible; we got very proactive, we didn't just sit and wait to be smacked around by Nedbank – we went back at them quite quickly. And the third thing was that we told the truth in the sense that we acknowledged areas of weakness and mistake. I think really Standard Bank has delivered 150% of what they promised at the time of the bid. I mean nobody can be unhappy with what they did so I think it was a combination of a number of things and just sticking to those.*

As the bid's progress was reported on and Stanbic kept up its counter attack in the media, Nedbank, in contrast, made the mistake of becoming too complacent and too arrogant in the media. Standard Bank's advisor explains: *It was hugely successful but partly because Nedbank made some terrible mistakes which we were very thankful for. I mean, they were hugely arrogant. They relied too much on the stock of irrevocable goodwill that they had from the shareholders, they relied too much on their currency. They didn't work hard enough at re-energising their attack. They got lazy and slow and complacent and we were working very, very hard to keep the pressure up, but obviously we were the ones being attacked so it was very important. So it was hugely successful but I think it was a number of different dynamics not just the communications and I truly think that if you stick to those three rules and you have the communications people in your war-room every day understanding what the issues are and obviously it does help to have communications people who've got good relationships with the journalists that the journalists trust not to spin to them or not to lie to them or mislead them. The Standard Bank/Nedbank thing is always held up as a great victory but Nedbank also - they made such fundamental communications errors that if they'd been better it might have been harder. They relied so much on their previous positive history. I mean the bid went on for a year, you've got to keep the momentum up and I don't know who did Nedbank's, but they didn't do a very good job and I think that also Standard Bank got better advice, they got a better merchant banker.*

So, while Stanbic expressed a favourable attitude to the media, it seems that Nedbank's arrogant attitude cost them media favour. The turning of the tide of sentiment against Nedbank is reflected in the following newspaper headlines which showed a critical attitude towards the merger: *Nedcor's takeover bid may have a degree of desperation* (Business Report 2000:2), *Post-merger banks often lose their edge* (Business Report 2000:3), *Bid for Stanbic not smart thing* (Business Day 2000:1), *Market seems to be turning away from optimism over chance of bid's success* (Business Day 2000:3). While initially Nedbank's positive history helped them to garner favour in the media, they could not rely on this solely to extract them from their crisis. They needed be more flexible and respond strategically to the defences posed by Stanbic.

C.3.4 Pro-active stance with the media

Rather than just being on the reactive side of journalist queries, Standard Bank took a very pro-active stance with the media and set up briefings for them. In one sense, the take-over bid could be described as one of the most exciting things happening in financial circles at the time, and Standard Bank took advantage of the atmosphere of interest and set up dramatic media conferences using special effects to explain Stanbic's defence. The advisor to Standard Bank explains: *The second tactic was to get very aggressive in the press from a proactive perspective so we set up press conferences and press briefings to try to tell the story in a way that would be more exciting for the press. We got very proactive, we didn't just sit and wait to be smacked around by Nedbank – we went back at them quite quickly. Briefings were*

always very useful for analysts and press. We'd often do joint analyst and press briefings. We did a couple of very big press conferences. When Jacko was appointed we did one and then when we presented our defence strategy we had a big press conference up a Vodaworld and we invited the world to that. We made it an exciting event. We didn't want to give the impression in any way that we felt undermined or under siege by this Nedbank thing.

The in-house head of Standard Bank's media communication (who was also interviewed for the study) explained that to be pro-active with journalists it is necessary to understand how the media works and what it is they seek. In this way, Standard Bank was able to use the media to its advantage to swing public opinion to its side. He said: *You've got to understand what the journalists are looking for. You've got to understand their time constraints, their deadlines and what kind of facts they need for their stories. You can even use the media to your advantage – to get facts out to your public. The media helped us with the Nedcor bid. They helped us tell our side of the story and swing the public attention in our favour.*

B.3.5 Communication practitioners must be part of the inner circle

Standard Bank's advisor believes that what helped Stanbic to be successful is that the communications team became part of the so called inner circle or executive team. They knew what was happening on a daily basis in the organisation and could make arrangements to capitalise on decisions taken by management in their communications with the media. This was, according to the advisor, more important than having a theoretical strategy. Being part

of the management, decision making team, and agreeing on plans of how to handle the media on a daily basis, was critical. She explains: *We didn't have a huge big communication strategy. We used to have early morning meetings where the advisors, us and the company – the little war cabinet – would agree on a daily and weekly basis how we were going to manage. So we didn't have a high-faluting, let's write down some big strategy. It was very practical. It generally is in that kind of situation. I mean we didn't write lots and lots of big documents that say we're going to do this. It was day-to-day tactical. But the communications people could be effective because they also were part of the inner circle. Now if you have your PR people or your press people and you view them as just as the people who talk to the press and you don't have them as part of your inner circle, it's very difficult. It's very important that you have your communications people as part of your inner circle and everybody agrees in that meeting in the morning what are we going to say to the press, what are we going to say to the analysts, what are we going to say to the shareholders and let's make sure that we say the same thing to everybody rather than the merchant bank and the company sitting and agreeing and then telling the PR people what to say. It doesn't work like that. You've got to be part of that decision making process so that you can see if the merchant bank have a defence strategy how can working the media or working the analysts support that on a tactical basis on a day-to-day basis and that's basically how it was managed. It was a great bid to work on, great team, fantastic people. Standard Bank have also got great media people internally that are still there and everyone felt like we were in the trenches and there was a great camaraderie and all the advisors got on really well. We had huge respect for*

the merchant bank and the broking teams and they treated us with respect. They didn't treat us like idiots. They made us part of the whole process.

Yes, it's often put forward as a real bench-mark transaction and it was a benchmark transaction in a lot of interesting ways. But I have worked on much worse crises than that, much more difficult bids. I did not find that to be difficult because the team were so close, they were wise. They had a good structure. They had those 8am meetings every morning where all the advisors would sit together for an hour and just debate what would be said to the press. As the bid went on - we initially used to have those meetings daily, then every other day and then towards the end we were having two a week.

B.3.6 Use of emotive persuasion tactics

In their defence strategy against Nedcor, Stanbic chose to focus on one of the most emotive elements against the merger – one that would no doubt elicit sympathy on the part of the public and disapproval from staff, trade unions, shareholders, analysts and government circles – the possible job losses that could have resulted. According to Standard Bank's advisor, Stanbic cleverly got staff involved in the counter-attack and by rallying their support, made their counter-defence stronger. She explained: *Stanbic also got McKinsey's (management consulting firm, particularly in the field of strategy) in to do a lot of research to look at the kind of value destruction that had taken place overseas around bank bids, particularly hostile ones and then when we realised that hostile bids were particularly destructive to shareholder value because of the people issues we then decided to get the Standard Bank staff*

involved because I think then the shareholders thought my god even if Nedcor buy Standard Bank they're going to lose half the staff, they're not going to be able to make this work. So, we operated on a lot of different fronts so it was shareholders, sell-side analysts, journalists and also we finally used the employees. We got them (the staff) T-shirts, we sent out lots of mails internally saying that this could be the impact on jobs if Nedbank were to take us over. We got people to feel very proud and sort of defensive around keeping Standard Bank as Standard Bank and they did things like they made banners and hung banners down from the building in bank city and we got journalists to come and run a photo call. You know, stuff like that. We got the staff (and the unions) up in arms about the fact that the greens were going to come and take us over. So it was all those things really, but one thing about crisis is – just keep it very simple. Keep it very tactical. Don't get bogged down in what a manual will say or let's have a crisis communications manual. Those things don't work in a real crisis. They don't. So that was my experience.

The defence strategy of rallying staff support and inciting the unions worked in Standard's favour as is evidenced by the following headline in Business Day (1999:1): *Battle for Stanbic – Unions threaten legal action to prevent merger.*

B.3.7 Keep messages simple

The crisis communications team kept the messages to the media simple, clear and consistent. For example, the CEO used plain understandable

phrases or soundbytes in his rhetoric such as: *Bigger is not always better*, says Maree (Business Day 1999:1). Standard Bank never attacked Richard Laubscher from Nedcor directly - they just counter-argued his reasons for the merger. Standard Bank's advisor explained that the arguments could be easily understood: *Basically our attack was – they've run out of road, they need to buy us because they have cut so much muscle out of their business, they can't grow, they need Standard Bank to grow but we feel that we've made the investments in growth, this new management team can deliver on that growth and in fact, Nedbank will destroy shareholder value if they take over. They will destroy that potential if they take over the business, because you'll lose half the management, you'll spend a year trying to extract synergies, cut costs and you've lost a whole year of growth so it never got personal. No-one ever attacked Richard, we attacked the strategic premise of the take-over all the time to undermine the credibility of their story.*

Clients and readers of newspapers gave further indication that the consistent strategy employed by Standard Bank worked, by writing emotive letters and opinion pieces in the newspapers. For example a client wrote in Business Day (1999:10): *Goodwill cannot be bought, it has to be earned. As a Standard Bank client for 49 years, I must express my disgust at the hostile bid engineered by Chris Liebenberg to gain control of the bank.*

B.3.8 Positive outcome from the crisis

It seems as if Stanbic has gone from strength to strength since the crisis. Although Stanbic seemed to be making all the right strategic internal business

decisions before the crisis, according to Standard Bank's advisor, it hadn't been working on its relationships with the media, the shareholders or the analysts. The crisis seemed to get the company to re-think this side of the business. Nedcor, in contrast, had been doing all the right things with regards to relationship building with the key stakeholders – media and analysts, but making the wrong strategic business decisions and since the crisis, these decisions have been exposed and the company, once the darling of the media and the industry, appears to have lost favour. Standard Bank's advisor said: *Astonishing, yes, at the difference between Nedcor then and Nedcor today. Really, everybody says that Standard Bank got a kick up the bum from the Nedbank story. I think to a certain extent it speeded up the process but they were making all the right strategic decisions but they hadn't played the game, they hadn't smoozed shareholders, talked to the sell-side, they hadn't made friends with the press. Now, Richard Laubscher had done all those things but he hadn't actually made the right strategic decisions in his business. So that was the difference.*

The in-house head of Standard Bank's media office said: *We now have a very good crisis communications policy in place and recently practised it with a mock crisis. It worked very well. It is critical to have this in place.*

The official sentiment was also that the battle for Stanbic presented by Nedcor was beneficial to the country and the industry as a whole. There emerged much more clarity on South Africa's policy on mergers and about whose responsibility these kinds of decisions are. There had been debate on

whether this responsibility rested with the courts, the Competition Commission, or the Registrar of Banks and whether the Banks Act was the principal law governing mergers. Trevor Manuel made the ultimate decision in this case and the Competition Act changed as a result. Business Report (2000:2) published the following: *Last week's courtroom shenanigans between the parties to Nedcor's proposed takeover of Stanbic illustrates that our regulatory and legal framework and even our corporate culture is still far from ready for the sort of hostile – or even agreed – takeovers that are routine in the UK and US.*

B.3.9 Conclusion

What was evident in the handling of Standard Bank's crisis in the media was the humility and accessibility of the CEO to the journalists. His candid demeanour endeared him to the media and his strong, persuasive, consistent messages, particularly those with emotive content (the threat of staff reductions) ensured that media coverage worked in Standard Bank's favour. Nedbank's complacency and arrogance, when compared against Standard Bank's pro-active and humble media approach, clearly did not earn Nedbank any favours. It helped that the crisis communications practitioners formed part of the top management decision-making team, and could plan their communication strategy with full knowledge. The crisis seemed to have awoken Standard Bank's management to the importance of having a good media profile and the company has since given this aspect of its business more attention. Standard Bank has, since this crisis, gone from strength to strength in the industry and in the media, whereas Nedbank seemed to suffer

irreparable damage from the failed bid and is starting, only at present, under the leadership of its new CEO, Tom Boardman, to regain its former reputation.

Actual print media coverage of the hostile take-over attempt of Standard Bank by competitor Nedbank

October 1999 - March 2001

National Newspapers:

- Business Day
- Business Report (The Mercury, The Star, The Saturday Cape Argus, The Pretoria News, Cape Times, Sunday Tribute, The Sunday Argus, The Sunday Independent, The Saturday Star and The Weekend Argus.
- Business Times (Sunday Times)

FirstRand and Absa expect a bigger slice

By Richard Stovin-Bradford

Johannesburg - FirstRand and Absa, two of South Africa's "big four" banking groups, would be short-term winners and boost their business if Nedcor's proposed bid for Standard Bank Investment Corporation (Stanbic) was successful, senior management at FirstRand and Absa said last week.

Their comments came as top executives of Nedcor and Stanbic prepared to meet this week to thrash out the terms and conditions of a possible merger, following last week's disclosure that Stanbic had received an unsolicited merger approach from its rival.

FirstRand is itself the product of the merger of the financial services interests of RMB Holdings and Anglo American, announced in April last year. The merger has taken over a year to bed down as FirstRand management has worked at merging and rationalising numerous business units.

Absa last year merged its four banking brands, comprising Allied, TrustBank, United and Volkskas, under the Absa banner. The four brands were themselves the product of earlier mergers.

Paul Harris, the chief executive of FirstRand Bank, whose main brands are First National Bank and Rand Merchant Bank, said: "The winners have to be ourselves and Absa. They (Nedcor and Stanbic) will lose market share."

Alwyn Noeth, the Absa Group executive director responsible for commercial banking, said: "Going into a merger, staff obviously get inwardly focused and we could certainly be short-term winners."

Noeth was referring to Old Mutual's majority stake in Nedcor and 23 percent interest in Stanbic.

"Maybe Nedcor feels Stanbic will fill the gaps. Stanbic is a strong bank and perhaps Nedcor thinks Standard can fill the gap between Nedbank at the top end and Permanent and People's Bank at the bottom."

Harris said: "Our merger was a lot different (from the proposed Nedcor merger with Stanbic) because we didn't have a lot of overlap."

Stanbic's shares closed 5c higher at R19,25 on Friday while Nedcor ended down 20c at R117,60.

Published on the web by Business Report on October 4, 1999.

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Stanbic rejects Nedcor's merger overtures

By Richard Stovin-Bradford

Johannesburg - Standard Bank Investment Corporation (Stanbic) yesterday declared that the proposed tie-up with its smaller rival was "not in the best interests of Stanbic shareholders" but it did not reject the idea.

Nedcor, South Africa's most cost-effective banking major, approached Stanbic last month in the hope of pulling off a deal to create a superbank. It proposed that Stanbic's board should ask its shareholders to approve a scheme of arrangement whereby they would exchange their Stanbic shares for Nedcor shares at "current market values".

Stanbic's polite rebuttal had been widely expected by analysts, not least because it was a textbook negotiating tactic designed to elicit a more attractive bid, but also because Stanbic had made no secret of its view that the merger could damage its franchise.

Stanbic's board said in a statement: "While Stanbic concurs with Nedcor that potential exists to extract significant cost savings through a merger, it believes that Nedcor has underestimated the "one-off" costs of achieving those savings."

By giving the gentlest of elbows to Nedcor, Stanbic has left its rival with the option of increasing its bid or turning what is already perceived as a hostile approach into an aggressive takeover offer in which Stanbic shareholders would have to decide for themselves whether or not to accept Nedcor's shares.

Conrad Strauss, Stanbic's chairman, said in a letter to Chris Liebenberg, his opposite number at Nedcor, that the Stanbic board had concluded that the "current plan" would not be in the interests of Stanbic shareholders.

But he left the door open for Nedcor to improve its price by adding: "For the Stanbic board to reconsider its position, it would require an appropriate exchange

Nedcor shares closed unchanged at R126 while Stanbic's shares shed 25c to R19,75.

Stanbic said it was concerned that significant net revenue losses would result from a merger, that unspecified but "substantial risks" could arise during merger implementation and that the high market share of a merged entity could reduce growth prospects.

Stanbic disagreed with Nedcor that Liberty Life would have to be unbundled after the merger, because this could end the "significant synergistic potential" of its relationship with Liberty.

It said Nedcor's proposal did not adequately address plans for Standard Corporate and Merchant Bank after the merger. Nor did it deal with Standard Bank's African network, Standard Bank London, Liberty Life or the loss of value arising from "diluting the Standard Bank brand".

Nedcor said it could have addressed Stanbic's concerns if further discussions had taken place. It said Stanbic's minimum share exchange ratio bore "no relation" to "recent market ratios" of 6,3 Stanbic shares for each Nedcor share. It would consider its position with "particular regard to the interests of its own shareholders".

Published on the web by Business Report on October 27, 1999.

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BUSINESSDAY

NEWS WORTH KNOWING

Thursday, 24 August 2006

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**STANBIC TURNS DOWN NEDCORS INITIAL BID**

1999/10/27 12:00:00 AM

**Stage set for battle royal as Nedcor is likely to go directly to shareholders
STANDARD Bank Investment Corporation (Stanbic) has rejected Nedcor's
opening merger proposal, raising the prospect that Nedcor will make a
hostile bid directly to Stanbic shareholders or walk away from SA's
secondlargest banking group.**

This comes three weeks after Nedcor presented its unsolicited merger plan to Stanbics board, which agreed to examine the proposal in detail.

Stanbic said yesterday it believed Nedcors plan would not be in the interests of shareholders who would face a significant earnings dilution if the merger occurred at or close to market values, as Nedcor proposed.

Stanbics board said yesterday it would reconsider its position only if offered a minimum exchange ratio of one Nedcor share for 4,75 Stanbic shares. This is 33% above the 6,3 ratio at which the shares have been trading recently.

Stanbic also indicated that the offer would need some sort of cash underpin, and proceeds of any sale or unbundling of Stanbic assets would have to be for the account of its own shareholders, not those of a merged group.

Nedcor countered yesterday that Stanbics suggested exchange ratio bore no relation to recent market ratios. A source close to Nedcor described it as ridiculous. He stressed that Nedcor proposed a merger of equals and a premium of this size was a nonstarter. Nedcor would now consider whether it should walk away from the deal, or approach Stanbics shareholders to decide the issue.

Stanbic said it had given the Nedcor proposals its fullest consideration, but Nedcor accused Stanbic of not following the agreed process of information exchange. No negotiations took place, Nedcor said.

Many of the issues raised by Stanbic yesterday could have been resolved in further discussions, Nedcor said.

Stanbic said yesterday that although it agreed the merger had the potential for significant cost savings, Nedcor had underestimated the costs of achieving those savings. The merger carried substantial risks and would result in significant revenue losses. The merged entity's dominant market share would limit future growth potential. And Nedcors plan to unbundle

would have to pay some kind of premium.

Before the downrating of the Stanbic share over the past 18 months after bad news about bad debts and other negatives, the ratio Stanbic suggests would not have been unreasonable.

Cook cautioned that hostile bids had a tendency to destroy shareholder value, with management hostility making implementation particularly risky. Whether Nedcor walks away or makes an offer to shareholders, the bid will have given Stanbic management a kick, forcing the group to pay more attention to its high cost structure and its risk controls. If Nedcor mounts a hostile merger bid, it may have to gain the support of 90% of Stanbics 30000 shareholders. Alternately, it could make a partial offer aimed at gaining a majority stake, possibly taking out the minorities later.

Old Mutual, which holds 53% of Nedcor, is also Stanbics largest shareholder with 23%.

Other large holders are Liberty Life, with 11%, the family of former Liberty chairman Donald Gordon, with 3,5%, and Anglo American, with just less than 2%.

The SA Society of Bank Officials (Sasbo) slammed Stanbics response, which showed callous disregard for the banks 30000 employees.

Sasbo general secretary Graham Rowan said the union, with 17000 to 18000 members at Stanbic, believed the banks directors were merely trying to bargain for a better deal. Stanbic closed 1% down at R19,75 on the Johannesburg Stock Exchange yesterday. Nedcor was unchanged at R126.

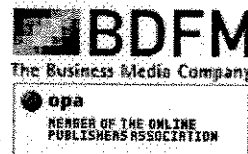


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Johannesburg - Standard Bank Investment Corporation (Stanbic) again rebuffed a merger proposal from its smaller rival Nedcor yesterday and warned its shareholders Nedcor could launch a hostile bid . "The Stanbic board has not changed its unanimous conclusion that the Nedcor proposal is not in the best interests of Stanbic shareholders. The Stanbic board accordingly considers the matter closed," it said in a statement. In a separate announcement, Stanbic announced that Mike Vosloo, its chief executive and a respected banking figure, would retire at the end of the year and hand over to Jacko Maree. Vosloo had been expected to retire next September but, "in the best interests of the bank," had decided to let Maree take the reins "sooner rather than later". - Richard Stovin-Bradford. [Full Story...]

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NEWS WORTH KNOWING

Thursday, 24 August 2006

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1st Ed - IN BRIEF - BUSINESS

1999/11/01 12:00:00 AM

AS NEDCOR prepares to make a quick decision on whether to launch a hostile offer for the Standard Bank Investment Corporation, newly appointed Stanbic CEO Jacko Maree said his first priority was to get staff back to work after the disruption caused by Nedcor's bid.

Nedcor may decide as soon as this week whether or not to launch a hostile offer after Stanbic firmly shut the door on further merger talks and appointed Jacko Maree its CE to replace Mike Vosloo. Page 13

WALL Street surged on Friday on economic data that showed inflation was under control. The Dow Jones industrial average rose 107,33 points or 1,01% to 10729,86 and the Nasdaq composite index soared 3,17% to 2966,43, a new record closing high. The UK's FTSE 100 index rose 1,7% on the Dows early gains, while Japan's Nikkei average rose 3% and Hong Kong's Hang Seng index gained 3,9% on Wall Street's gains on Thursday night. Page 21

WEAKER -than-expected credit data, released last week, though pointing to a pick up in the economy, suggests that SA is close to the bottom end of the interest rate cycle, economists said. Page 4

FINANCIAL services group Old Mutual's R2,1bn outsourcing contract signed at the weekend is sure to set a new outsourcing trend in the information technology industry, industry watchers say. In terms of the deal, US-based information technology company Computer Sciences Corporation will manage Old Mutual's entire IT infrastructure. Page 14

THE Financial Services Board has paid out more than R240000 to shareholders who have been prejudiced by insider trader transactions after taking legal action in three probes and settling two more. Page 15

AN 11-year effort by Standard Chartered Bank to claim hundreds of millions of dollars in damages from PricewaterhouseCoopers, one of the world's major accountancy companies, enters its final stage. In an earlier ruling that was subsequently set aside, a jury awarded Standard \$338m. The award would be a severe blow for PricewaterhouseCoopers if the court was to reach the same verdict again. Page 16

THE first Spanish internet stock to be launched on the market, Terra Networks, an offshoot of the Telefonica group, has been valued at between \$3bn and 3,5bn. The prospectus for Terra's initial public offering, on the Madrid and Nasdaq markets, is due to be filed today with Spain's CMNV regulator and the US Securities and Exchange Commission. Page 17

BUSINESSDAY

NEWS WORTH KNOWING

Tuesday, 22 August 2006

close window

**STANBIC FACES NEW NEDCOR PRESSURE**

1999/11/01 12:00:00 AM

New CE says implementing such a merger is very complex, with huge risks AS NEDCOR prepares to make a quick decision on whether to launch a hostile offer for the Standard Bank Investment Corporation, newly appointed Stanbic CEO Jacko Maree said his first priority was to get staff back to work after the disruption caused by Nedcor's bid.

Nedcor may decide as soon as this week whether to launch a hostile offer after Stanbic shut the door on further merger talks and appointed Jacko Maree its CE to replace Mike Vosloo.

Stanbic said on Friday its board was unanimous that Nedcor's merger proposal was not in the interests of shareholders. A detailed letter from Nedcor chairman Chris Liebenberg published on Thursday took the matter no further, Stanbic said, and its board considered the matter closed. Nedcor was free to make a hostile offer.

Although the two spent three weeks examining Nedcor's merger proposal, Maree said no offer was ever made to Stanbic or its shareholders and Nedcor did not disclose many details.

Maree said implementation in a merger this size were very complex, and the risks were huge. If it goes wrong, it goes horribly wrong. Though there was potential for short term cost cuts, the longer term growth prospects for a merged bank were limited, given what would be a very large market share.

Based on analysts forecasts for financial 2000, it is estimated that Stanbic's earnings per share in the first year of a merger would be diluted 13% while Nedcor's would be boosted 15%. This assumes no cost savings, or revenue losses, from a merger.

Maree was appointed deputy CE about 18 months ago, and replaced Vosloo at the helm of the group's domestic operation, Standard Bank of SA, earlier this year. He was expected to become Stanbic's CE only on Vosloo's retirement in September 2000, but the appointment was brought forward in response to the Nedcor approach.

Stanbic insiders said on Friday the appointment of the popular, approachable Maree provided a boost to staff morale.

Although Nedcor may still decide to walk away from the merger plan, indications are that it is working on the price at which an offer would be pitched, and talking to key shareholders about what they would accept.

Nedcor CE Richard Laubscher has denied reports the group was getting irrevocable undertakings from shareholders in favour of a merger. However, he said shareholders were telling Nedcor to get on with the deal.

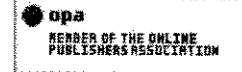


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COMPANIES

Nedcor poised to move as Stanbic row brews

[Nedcor poised to move as Stanbic row brews...](#)

Hostility worsens as Stanbic goes to SRP, writes AMANDA VERMEULEN

[Anglo pays dear for Tarma...](#)

NEDCOR is expected to announce tomorrow whether it plans to make an offer to shareholders of Standard Bank Investment Corp (Stanbic) as the tension between the two banks escalates into open hostility.

[Inquiry seeks Sun Air 'wrongdoers...](#)

Fund managers said on Friday Nedcor had talked to key Stanbic shareholders in the week, discussing a merger ratio of one Nedcor share for 5.5 Stanbic shares held or about R21, compared with the original proposal of one Nedcor share for 6.3 Stanbic shares, or just over R18. These prices are based on Nedcor's Friday close of R115.60.

[Angry independent fruit producers set fo...](#)

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The move has raised the ire of Stanbic management, who have lodged a complaint with the Securities Regulation Panel (SRP) that Nedcor was discussing price with only certain Stanbic shareholders, which may have caused the market to move. It is likely the Financial Services Board will investigate trading in Stanbic shares this week.

[FBC Fidelity's rocky path paved with hop...](#)

[Telkom beefs itself up for competitio...](#)

The SRP's Richard Connellan said he had given both parties a "stern talking to" but was not in a position to "interfere" because of the Banks' Act.

[Namco ready to take on De Beer...](#)

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Stanbic chief executive Jacko Maree said it was inappropriate for Nedcor to be "badgering some of our shareholders... If it is going to talk price, it must put an offer on the table to all shareholders."

Study shows
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available to Nedcor.

The shareholders who are in favour of the deal are permitted in terms of the law to call a shareholders' meeting, and propose a resolution to change a company's board.

Such a resolution would require the approval of 51% of the shareholders. Should this move happen and be successful, a reconstituted Stanbic board could then call a scheme of arrangement meeting to vote on the Nedcor proposal, requiring support from 75% of the shareholders to make a full merger compulsory. At the moment, 90% approval is needed.

This route has never been pursued in SA corporate history and could be a huge gamble. It is apparently not currently being considered.

One fund manager said: "Nedcor is obviously hoping Stanbic (management) will blink. But we sense the tide has turned against Nedcor. There is a lot of resentment building that Nedcor is trying to 'steal' Stanbic."

Old Mutual, which has taken a public stance by siding with Nedcor, has demonstrated uncharacteristic aggression and annoyance at Stanbic's refusal to pursue merger talks with Nedcor and explain its position to shareholders - a sign that its appetite for a hostile approach has increased.

But the assurer's actions have drawn criticism. One fund manager said it should have been more circumspect.

"Mutual's stake in Nedcor is held mostly through its shareholders' funds, while its Stanbic holding is mostly through the policyholders.

"If the merger goes through, the policyholders will lose out but the shareholders will gain. There is a clear conflict, especially when you consider that Mutual isn't pushing for a better price."

Old Mutual executive GM Roddy Sparks said on Friday there was a significant body of shareholders who have been supportive of the deal at a range of merger ratios and believed that both sets of shareholders would experience significant value gain from a merger.

the merger through, adding that Anstee's comments could undermine the Stanbic share price. "Mutual shouldn't be talking down the value of Stanbic shares when it has been an active buyer in the last few months."

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BUSINESSDAY

NEWS WORTH KNOWING

Thursday, 24 August 2006

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1999/11/12 12:00:00 AM

THERE is no longer any chance of a friendly merger at market prices between Nedcor and Standard Bank Investment Corporation. If and it is a big if the merger happens, it may yet be amiable but it will not be at market prices. Indeed, market talk earlier this week was that Nedcor might consider a better premium for a friendly deal than it would have for a hostile one.

The hostile route seems suddenly to have vanished from the agenda between Friday, when indications from Nedcor were that it was about to go public with a bid, and Sunday evening, when the group released a brief statement which said, in effect, dont hold your breath.

Did Nedcor and parent Old Mutual, which is also Stanbics largest shareholder, have a good think over the weekend? Or were they responding to a change in market sentiment, propelled in part by the public utterances of Old Mutual finance director Eric Anstee? Other Stanbic shareholders may not have appreciated Mutual throwing its weight around.

And, Anstees tone gave a hint of just how aggressive a battle could become.

Johannesburg may not be ready for the viciousness of a hostile bid. Even if it were, the compelling argument against a hostile bank merger is that the risks of implementation would be extremely high. This is especially so in SA, where skills and managerial competence are in short supply. Nedcor is, after all, much smaller than Stanbic and cannot hope to manage a merged entity on its own.

The question is whether Nedcor can resuscitate the friendly route. One factor which seemed to have soured relations was that Nedcor approached shareholders before it spoke to Stanbics board, and, when it did approach the board, was perceived to be trying to bypass management. Perhaps it should go right back to square one and talk to management.

Deregulating fuel

WORLDWIDE African Investment Holdings acquisition of 20% in oil group Engen is being punted as a step towards governments objective of transforming the domestic oil industry by giving previously disadvantaged South Africans a meaningful stake.

There is some truth behind the hype, despite criticism that the blackowned group has done little more than swap operational control of its (relatively few) service stations for a minority stake in a far bigger group.

Worldwide chairman Louis Skweviva emphasises the training and skills...

Nedcor's bid for Stanbic backed by shareholders

By Richard Stovin-Bradford

Johannesburg - Nedcor, the banking group, had gained virtually enough shareholder backing to make the outcome of its long-awaited bid, announced early yesterday, for larger rival Standard Bank Investment Corporation (Stanbic) a foregone conclusion. The investor support came in the form of irrevocable undertakings and written indications of support.

Richard Laubscher, Nedcor's chief executive, said: "The institutions have overwhelmingly evidenced their strong support for the deal."

Nedcor's announcement followed the rejection by Stanbic's board late on Friday of Nedcor's merger overture on the basis of one Nedcor share for every 5,5 Stanbic shares (the "partial offer ratio") or, in the event Stanbic's board recommended a scheme of arrangement paving the way for a full merger, one Nedcor share for every 5,25 Stanbic shares (the "recommended offer ratio").

Stanbic's latest rebuttal forced Nedcor to raise the tempo and nature of its pursuit by letting Stanbic's shareholders decide whether the R57 billion merger should proceed.

Nedcor, which said it did not consider its bid to be hostile, said it would make a partial share exchange offer to Stanbic shareholders,

undertakings to accept the offer either at the partial offer ratio (30,7 percent) or at the recommended offer ratio (4,8 percent).

Shareholders with a further 12,4 percent of Stanbic have given written or oral indications of support for the merger.

In other words, shareholders accounting for 47,9 percent of Stanbic have supported Nedcor's approach.

The likelihood of the merger proceeding put Liberty Life, the life assurer controlled by Stanbic, into play with a leap in the share price of 223c, or 3,86 percent, to R59,93 yesterday.

Liberty could either be unbundled or sold to one of only a handful of local financial services groups. But the sizeable market capitalisation of recently rerated Liberty means any local competitor would have to use shares or a placing of shares to pay for the assurer.

Commenting on Liberty, Laubscher said: "It's a vexed issue inside Stanbic...We do not believe it's appropriate for us to determine Liberty's destiny."

But Tony Routledge, the head of group strategy, said Nedcor's preference would be to sell Liberty Life at a premium rather than unbundle it.

Roy Andersen, Liberty's chief executive, said: "Until there's a firm offer...it is premature for me to comment."

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Thursday, 24 August 2006

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**MERGER COULD RESULT IN 10000 JOB LOSSES**

1999/11/16 12:00:00 AM

NEDCOR, SAs fourth-largest bank, says 10000 jobs will be lost if the proposed merger between it and Standard Bank Investment Corporation (Stanbic) goes through, with the number of staff at the combined operation dropping from the current 50000 to 40000 in three years time.

The number of bank branches will be reduced by 20% to 1050 over the same period. Most of the job losses would result from natural attrition and not retrenchments, Nedcor CE Richard Laubscher said yesterday.

The two groups employ a total of 51000 people and have five million clients. The merger benefits would be achieved without significant lay-offs, Laubscher said.

There will be a natural attrition rate of 6000 a year among SA banks, so we believe that retrenchments can be held to a minimum, he said.

Nedcor said the two trade unions involved had been kept up to date with the latest developments on the proposed merger. The group said only 49 employees were retrenched when it closed 70 Perm branches.

The banking conglomerate is planning to acquire control of Stanbic. Despite having been rebuffed by Stanbic on previous occasions, Nedcor continues to present the merger proposal as a friendly overture in line with the express wishes of many of Stanbics shareholders.

The group denied it was staging a hostile take-over bid and insisted that it was still talking in terms of a friendly merger.

If the bid succeeds, the merged group will be SAs largest bank with a market capitalisation of about R57bn, delivering cost savings of R3.1bn over the next three years.



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Tuesday, 22 August 2006

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**BURYING THE HATCHET IS KEY TO FRIENDLY MERGER**

1999/11/16 12:00:00 AM

Nedcor needs to allay Stanbic's fears over proposed deal if a hostile bid is to be avoided

BEFORE the proposed merger between Nedcor and Standard Bank Investment Corporation turns too unfriendly, someone is going to have to tell Stanbic board members that the more hostile it gets, the less chance they have of fulfilling their stated wish of adding shareholder value.

Nedcor, the smaller group in the deal, does need management on its side, especially if the Standard Bank brand is to remain, and there is every indication that it will.

Yet with a significant portion of the potential cost savings of R3,1bn over three years coming from head office level, and with 10000 jobs expected to be cut, one can see why Stanbic management could consider the deal hostile.

Although it has been talking to Stanbic since early in September, Nedcor made its first technically hostile move yesterday, bypassing the Stanbic board and asking shareholders directly to support its merger bid.

It has placed additional pressure on the Stanbic board by offering to sweeten the deal if the board recommends the offer to its shareholders. The sweetener is probably of little consequence (one Nedcor share for every 5,25 Stanbic share as opposed to every 5,5), but it does indicate willingness to get Stanbic management on its side.

This puts Stanbic management in a very difficult position. Nedcor has craftily put the ball in the court of the Stanbic board, which has until now been against the proposal. A change of attitude would have a direct positive effect on the pockets of its shareholders.

Nedcor management stated repeatedly yesterday that they wanted the deal to be seen as friendly, and would keep knocking on the Stanbic door until they won management over.

However, they were not shy to criticise too.

Nedcor chairman Chris Liebenberg said although the latest proposal was unsolicited, in our estimation it is not unfriendly.

However, he said Nedcor was sceptical about it (Stanbic) putting information into the public arena so early, referring to the cautionary announcement by Stanbic that it had been approached, which set the fur flying.

Liebenberg said the organisation which is saying no to us has a history of doing it themselves - first with (the failed integration of) United Building Society and then the

assets and the investor taking a stake in Liberty. We were told: please don't deal with Liberty, it is not your asset, he said. We believe the Liberty board should determine its own future.

One analyst pointed out a large chunk of the shareholders who have irrevocably committed to the deal are in the camp of Old Mutual, Nedcor's controlling shareholder and a 21% shareholder in Stanbic. These include NIB Asset Management and Mutual & Federal. Another said: I still maintain that the big boy behind the merger is Old Mutual, which has promised its international shareholders it will start diluting its pure banking shareholdings in SA.

He said Nedcor was aggressive in its style and wanted to be internationally competitive, while Stanbic was lagging behind. If it were at the forefront in terms of issues like strategic thinking and technology it would not have been a takeover target, he said.

The deal, valuing Stanbic at between R29bn to R31bn depending on how the takeover is effected, is the biggest hostile bid yet in SA.

Apart from the Tongaat-Hulett merger in the 1960s and Investec's unsuccessful bid for BoE in the late 1980s, SA corporate history has been one of gentlemen's deals partly due to entrenched control structures and shareholder apathy.

However, various factors, including unbundling and globalisation, have created space for opportunistic activity of late. These include African Life's unfriendly and unsuccessful bid for Norwich, and Brait and Altrons' separate bids for Reunert. Lonrho Africa and AM Moolla have also had to fight off hostile bids.

Since demutualising, Sanlam has left itself with no outright controller and open to a hostile bid. So have firms which have been unbundled from major conglomerates, like New Clicks from Malbak.

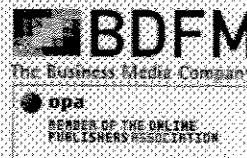
The financial services merger trend is not confined to SA. The most recent internationally is the fight for control of National Westminster Bank. Royal Bank of Scotland (RBS) has announced it is considering a merger with NatWest, which is already the target of a 22,3bn bid from RBS's competitor, Bank of Scotland. NatWest reacted by saying it would implement a restructuring on its own to release shareholder value.

While Stanbic remained cautious in its response yesterday, an analyst said it was possible it could come out with a similar statement telling shareholders it could release more value by restructuring itself rather than form part of another group, which had to tap into its potential cost savings to grow.

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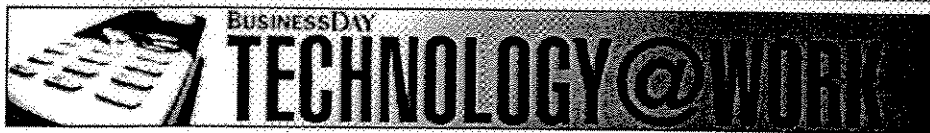


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Thursday, 24 August 2006

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**1st Ed - BANKING SHARES END MIXED IN WAKE OF BID ***

1999/11/16 12:00:00 AM

BANKING shares ended the day on a mixed note yesterday following the news of a hostile takeover bid by Nedcor of its rival, Standard Bank Investment Corporation (Stanbic).

The financial index gained 127 points, or 1,65%, to finish 7841 firmer, driven mainly by the news of the bid. The bid could create SAs largest bank and create a new banking powerhouse in Africa, reducing the number of major banks in SA to three from four. Despite Nedcor's bid to acquire Stanbic, the former shed 300c or 2,56% to finish at R114 while the latter added 15c or 0,70% to end at R21,50 firmer.

Dealers said there was a perception in the market that the financial stocks were undervalued, hence their continued posting of gains.

Other banking stocks which finished stronger on the session included FirstRand which rose 17c or 2% to close at 797c, and BoE, which added 4c to close at 518c. Absa lost 20c to close at R27,70.

Recent positive macro-economic factors and improved fundamentals encouraged a return of positive sentiments to the markets. This was also helped largely by a stronger outlook from the world markets.

Dealers said that, with financial stocks finishing mixed, investors had refrained from building major new positions on the eve of the US Federal Reserves meeting today on interest rates.



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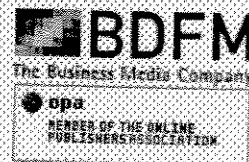
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Phukubje Pierce Masithela Attorneys

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Thursday, 24 August 2006

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**- TOUGH DAYS AHEAD FOR AMBITIOUS DEAL**

1999/11/16 12:00:00 AM

Nedcor will have its work cut out as it sews up merger

THERE was one tiny glitch in yesterdays 90-minute presentation by Nedcor executives to justify their offer for control of the Standard Bank Investment Corporation (Stanbic). Instead of a blob next to each of the points outlining the two banks strengths, there was with just one exception a question mark.

Freudian slip or not, the question marks reflect the reality that, no matter how impressive their respective strengths, both Nedcor and Stanbic face a period of considerable uncertainty ahead.

The most immediate question is whether, and at what price, Nedcor will sew up what would be by far the biggest financial services merger and perhaps the biggest deal of any kind in the history of corporate SA.

While Nedcor executives continue to call their approach a friendly offer, it has become to all intents and purposes a hostile one. Chairman Chris Liebenberg went no further yesterday than describing recent contacts with Stanbic as thoroughly professional and very gentlemanly.

Nedcor appears to have a strong hand. It said yesterday that it had secured irrevocable commitments from holders of 35,5% of Stanbic shares, as well as indications of support from another 12,4%. Those in favour include Old Mutual, Stanbics biggest single shareholder, with a 21,4% stake.

But the battle is not yet won. Even if Nedcor does prevail, there could yet be some twists and turns.

Stanbics board has already succeeded in wringing considerably better terms out of Nedcor which when the approach was made two months ago suggested any deal would have to be done at close to prevailing market prices.

At that time, one Nedbank share was worth 6,28 Stanbic shares.

Yesterdays offer would require Stanbic shareholders to give up only 5,25 shares (if the board endorses the deal) for each Nedbank share a 16% premium on the 30-day moving average on September 28.

Whether Nedcor can be persuaded to raise its bid further remains to be seen. For the time being, it is taking the line that any further drop in the ratio would make the deal unpalatable to Nedcor shareholders. This is a better deal for the Stanbic shareholders than...

we have an opportunity on our own home ground to bat against Deutsche Morgan Grenfell, ING Barings and Warburg.

The argument Nedcor is pushing most strongly, however, is the scope for a merged entity to combine resources, bring down costs and so boost shareholder returns.

It estimates that the merged bank would have a cost-to-income ratio of about 48%, compared with Stanbics 65% and just below 60% for Nedcor. As Laubscher half-jokingly puts it: If your cost ratio is over 60%, you're no longer a bank, you're a target.

If Nedcor's estimates are correct, the merged bank would have a return on equity of 30% within the next few years, compared with this year's projection of 25% for Nedcor and 21% for Stanbic.

Savings in nominal terms would reach R3,1bn by 2002, with threequarters of the total coming from retail operations, information technology and head office. Nedcor reckons the combined head office could be run for less than a quarter of the two present structures.

There would inevitably be some loss of revenue as customers defect to other banks or combine accounts. Nedcor is working on a 4% shrinkage in assets, an 8% fall in retail deposits, and a 7-8% drop in the combined banks commercial and corporate business. The big, unanswered, question is how realistic these estimates are and how smoothly the projected savings can be implemented.

Referring to his side of the business, Barry Hore, Nedcor director for technology and operations, acknowledged yesterday: were not trying to suggest this is an easy or simple job.

Critics of the proposed deal point to a number of potential pitfalls. One most frequently mentioned is the difficulty of meshing two disparate corporate cultures. Nedcor has a reputation as a more agile and free-wheeling group.

Laubscher acknowledged yesterday that about 10000 jobs could be lost in the merger.

Nedcor however hopes these will be more than covered by natural attrition.

The critics are less sure, contending that the stresses and strains of the merger could lead to the departure of hard-to-replace managers with specialised skills. They also maintain that the upheavals caused by a merger of this size would take a heavy toll on overall staff morale.

Laubscher was at pains yesterday to reject any suggestion of US-style neutron-bomb tactics in which all the people are gone, but the buildings are left standing. We've never behaved like that, he said. Everyone who is on board and does not white-ant (the merger) will find a place in the sun.

Concern has also been raised about the competition policy implications of creating what would be by far SAs biggest bank. Nedcor and Stanbic between them have an estimated share of more than 50% of the corporate treasury market.

The links between Stanbic and Liberty Life could also prove a stumbling block, although Nedcor indicated yesterday it would either unbundle or sell Stanbic's 30% stake in Liberty.

Another issue is how smoothly Nedcor can integrate its information technology (IT) systems with those of Stanbic. The main obstacle is in the branches, where the two banks use different software.

There is some political pressure on Nedcor to dilute its emphasis on banking to upper-income groups.

Nedcor put a brave face on all these issues yesterday. It maintains, for instance, that the new entity's market share will be below 35% in key areas, adding that the merger between

the Democrat and Banker Bank has since its successful completion...

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Thursday, 24 August 2006

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1999/11/16 12:00:00 AM

Suitor says shareholders representing more than half of targeted group support merger bid

NEDCOR has turned up the heat on Standard Bank Investment Corporation, launching a R29bn, all-paper merger bid, which analysts say Stanbic would be hard pressed to reject. Nedcor said yesterday morning that holders representing 35,5% of Stanbic shares had given irrevocable commitments to accept its offer of 5,5 Stanbic shares for each Nedcor share.

Investors representing a further 12,4% had offered verbal and informal support.

Nedcor CE Richard Laubscher said at lunchtime that another investor had thrown its support behind the bid, pushing the total to more than 50%.

Stanbics only response yesterday was that it would consider Nedcors bid. The Stanbic board has previously rejected Nedcors overtures, indicating that it was unwilling to settle for anything less than 4,75 Stanbic shares for each Nedcor share. Nedcors latest offer values Stanbic at R29bn.

One analyst, who declined to be named, said the prices of the two groups shares indicated strong shareholder support for a 5,25 ratio.

The ratio between the two share prices at the close of trading on the Johannesburg Stock Exchange yesterday was 5,21. Stanbic closed 15c higher at R21,55. Nedcors share price dropped 300c to R114.

Nedcor executives continue to insist that their offer, the biggest takeover bid in SA corporate history, is friendly. The offer might be unsolicited, but it is certainly not hostile, said Nedcor chairman Chris Liebenberg.

The merger would create SAs biggest bank with a market value of about R57bn, total assets of more than R270bn and about 50000 employees.

The combined group would be ranked among the top 150 worldwide in terms of assets.

Nedcor said it was prepared to sweeten its offer to a ratio of 5,5 Stanbic shares for each Nedcor share, but was prepared to go as low as 5,25 if the Stanbic board recommended the offer.

The Nedcor bid is a partial offer to acquire 50,1% of each shareholders holding of Stanbic shares.

Nedcor said that its ultimate aim was to acquire 100% of Stanbic, but it had decided to go for partial control for now as it was unlikely to achieve the 90% support required to buy out

Nedcor separately.

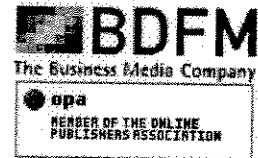
Laubscher acknowledged that a merger would lead to about 10000 job losses. On the future of Stanbics 30% stake in Liberty Life, Laubscher said that, if the merger went through, Nedcor would engage Liberty management with a view to sell or unbundle the Stanbic interest.

No decision on Libertys future would be taken without extensive consultation with Liberty. The insurance group, which holds 13% of Stanbic, said Nedcor had not yet approached it about the bid.



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Besotted Nedcor should pay some heed to Old Mutual

By -

Which part of "no" don't you understand, was the third, remarkably consistent, response by Standard Bank Investment Corporation (Stanbic) to Nedcor's persistent amorous advances yesterday.

Stanbic's firm, but polite "thanks but no thanks" has gradually become a "put up or shut up" as price comes ineluctably to the fore.

But while we still reckon this one's all over bar the shouting - and the devil is gonna be in the detail - some fairly major issues must be tackled by Nedcor and Old Mutual.

For starters, while the approval of the finance minister and the Registrar of Banks may be something of a formality (casting CorpCapital aside for a moment), the Competition Board has, as one might expect, been silent.

Its silence contrasts markedly with the noisy anti-Stanbic invective being peddled by Eric Anstee, Old Mutual's finance director. Invective that makes this unequivocally a hostile bid, contrary to Nedcor's battle plan of getting a "friendly" bid past the board.

Meanwhile, Old Mutual continues to raise eyebrows with its Pied Piper of Hamelin act of throwing its irrevocable penny in with its coterie of chummy asset managers.

Persistent market talk suggests Old Mutual was a seller of Stanbic stock last week ahead of Monday's offer from Nedcor. Where, if this is true, does Old Mutual think the interests of its policyholders lie? It looks as if they are being sold short, as indeed they were last week.

Of course, those asset managers with an imperfect banking mix in their portfolios

As we said yesterday, Nedcor must press on with some speed. Even though its own shareholders may balk at a minor overpay, Nedcor must factor in that Stanbic minorities are still sore after overpaying for Liberty.

A reasonable premium would seem to be in order. Meanwhile, why should Stanbic roll over for the benefit of Nedcor's shareholders?

Published on the web by Business Report on November 17, 1999.

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Stanbic calls securities regulator into bid war

By Richard Stovin-Bradford

Johannesburg - Standard Bank Investment Corporation (Stanbic), the target of a hostile takeover bid from smaller rival Nedcor, yesterday confirmed it had written to the Securities Regulation Panel (SRP) expressing its concern that Stanbic shareholders might have been misled by Nedcor's claimed institutional backing for its bid.

The letter comes as Stanbic steps up its defence and the two banks dig in for a protracted battle in the run-up to the year-end.

On Monday Nedcor, egged on by controlling shareholder Old Mutual and against its own original desire to pursue an amicable merger with its bigger rival, launched a hostile partial bid for 50,1 percent of Stanbic's equity.

At the time Nedcor said it had received irrevocable undertakings from institutions holding about 35,5 percent of Stanbic's equity to accept either its partial offer ratio of one Nedcor share for every 5,5 Stanbic shares (30,7 percent) or its recommended offer ratio (4,8 percent).

Shareholders with a further 12,4 percent of Stanbic had given indications of support, giving Nedcor an apparent headstart in its bid of about 47,9 percent.

Stanbic described the headstart as "untenable" and requested a public retraction by Nedcor of its statements if it could not substantiate its claimed support.

It is understood the SRP has not sighted the irrevocable undertakings. Stanbic demanded publication of the scope, nature and terms, and conditions of the irrevocable undertakings and indications of support.

Nedcor's shares firmed 400c to R113 and Stanbic's shares gained 65c to close at R20,50 on the JSE.

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BUSINESSDAY

NEWS WORTH KNOWING

Tuesday, 22 August 2006

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**STANBIC QUESTIONS NEDCORS CLAIMS**

1999/11/19 12:00:00 AM

STANDARD Bank Investment Corporation (Stanbic) has expressed concern to the Securities Regulation Panel that the shareholder support claimed by Nedcor in its hostile bid may not be as solid as it has led the market to believe.

Nedcor, which launched its hostile bid for 50,1% of Stanbic on Monday, said it had irrevocable commitments from shareholders holding 35% of Stanbics shares on various terms and conditions. Shareholders holding a further 12,4% had given written or verbal indications of their support for the concept of the proposed merger.

In a letter to the panel last night, Stanbic asked if it could request that Nedcor disclose the conditions contained in the irrevocable letters of support, a Stanbic spokesman said.

It also demanded public clarity on the nature of the verbal or written support.

Stanbic is understood to be concerned that the market might have been misled about the degree of support for the Nedcor offer.

Market sources said the conditions in irrevocable letters of commitment are typically time or price breaks. These may allow shareholders to accept a higher offer (if there is one) or sell on the market if share prices move dramatically.

Support is also likely to be for a limited period only. Some Stanbic shareholders commitments to support the Nedcor offer could expire if regulators take months to examine the deal.

The offer is conditional on clearance from the finance minister, who will be advised by the Competition Commission and the registrar of banks.

Stanbic has asked the panel to oblige Nedcor by notifying the market immediately if any of the irrevocables expire or lapse.

Nedcor is offering one Nedcor share for 5,5 Stanbic shares if the bid remains hostile, or a more favourable (recommended) ratio of 5,25 if Stanbics board supports the merger and recommends it to shareholders. Holders of 31% of the shares have given irrevocable undertakings to support either offer. The other 4% have undertaken only to support the recommended option.

Stanbic, which has rebuffed all Nedcors approaches, plans a series of presentations to investors next week in which it will detail its defence. The group will provide a full analysis of Nedcors proposal and outline its objections. It will also give an overview of its own prospects as a stand-alone entity.

Banking battle may end up too costly

By Siphon Ngcobo

As the battle rages on between banking groups Nedcor and Stanbic, fuelled by the former's hostile takeover bid of its bigger rival, the price may be too heavy for the merged entity if the deal is successful. But at what price? Market share.

Basically, the messier it is and the longer it takes for the Nedcor/Stanbic deal to be realised, the more market share the Nedcor/Stanbic giant will lose to such serious competitor banks as Absa and First National Bank.

In terms of the returns by commercial banks submitted to the Reserve Bank, a merged Nedcor and Stanbic entity would have a 35,3 percent share of the bank loan market. The same files show that in August, the merged entity would have had 35,2 percent of the mortgage market and 37,5 percent of total deposits.

But all this could dwindle seriously by the time the merger had been fully completed. Let's suppose the deal is clinched before the end of the year. Given the size of the two companies, (and if the merger is done properly) it could take until the end of year 2002 before all the aspects of the merger have been dealt with.

In short, during the three years the merged group would be totally inward-focused, and not able to engage in outward-looking strategies to improve business and boost market share.

Even after all the paperwork had been done in terms of the deal, combining the operations and making them function as one well oiled machine would prove a mammoth task given the differences in the cultures of the two banks. The tasks would include aligning IT systems; clearing the uncertainty in terms of the future of individual staff members; the creation of a single corporate culture and values; increasing staff morale and then getting down to serious work as one formidable company.

Definitely, yes!

Nedcor upped the tempo this week, steamrolling the issue into the shareholder arena. It's now up to Stanbic shareholders to reject or accept the Nedcor offer.

The rationale for the merger is strong. South African banks need to fall in line with international consolidation trends.

Done properly, consolidation gives merged entities the ability to compete against the best, particularly at this crucial time of globalisation where a lot of smaller, weaker companies will disappear.

There is no doubt that the Nedcor-Stanbic merger will create a strong and highly competitive South African banking institution. Frankly, it is better to have a few such institutions than many lethargic banks with huge cost-to-income ratios. A weak banking sector bodes ill for any economy. At the heart of the proposed merger is the scope for the two entities to combine resources, bring down costs and boost shareholder value.

Currently, Standard Bank's costs are too high. You could say it lives beyond its means. Its cost-to-income ratio is above 60 percent compared to Nedcor's about 55 percent. The fact of the matter is, once you operate at such cost ratios, you are not only running an expensive, cumbersome outfit, but you are an easy target for hostile bids.

If Stanbic does not believe this, they must look back to what happened to Southern Life.

Nedcor estimates the merged bank would have a cost-to-income ratio of 48 percent. So, if the merger is successful, customers will be the winners.

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THE WEEK
A H F A

Stanbic shores up merger defences

The besieged bank is to beef up its top team, writes AMANDA VERMEULEN

STANBIC CE Jacko Maree plans to announce a major executive reshuffle this week, introducing a beefed-up management team to drive its defence against Nedcor's hostile takeover bid.

The members of the team have not been disclosed, and are only expected to be named mid- to late-week, ahead of Stanbic's responding presentation to Nedcor's announcement of plans to make an offer to Stanbic shareholders.

The Stanbic presentation is likely to be towards the end of the week.

Meanwhile, Nedcor has steadily increased shareholder support, securing 20 irrevocable undertakings or letters of support by Friday evening from managers of funds owning almost 50% of Stanbic shares.

Nedcor's initial target is 50.1% of Stanbic shares, after which it plans to launch a second offer to get the minimum 75% support required for the merger.

Some of the irrevocable undertakings have limited time frames, however, while others are conditional on Stanbic's board recommending the deal.

Nedcor sources also indicated that the bank may improve its unconditional offer to one Nedcor share for 5.25 Stanbic shares to remove the thorny issue of shareholders needing Stanbic board

DNA links Micor into supply chain...

"We are not going to sell Liberty, or divest from our interests in London or Africa."

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Maree also acknowledged that Stanbic would have to reduce its staff complement by 3 000 to around 28 000 over the next three years to improve the bank's cost-to-income ratio.

AMB walks shareholder plank despite 40% ...

The ratio is currently 62%, and Stanbic believes that by 2002, it can be brought down to 58%.

Barlows says it is well placed for globa...

This compares unfavourably with the Nedcor expectations of a cost-to-income ratio of 48% for the merged Nedcor-Stanbic entity by 2002.

Great battle of the banks begins in earn...

Maree said cost-to-income ratios related to which markets were targeted. "We are much bigger in the mass market which contributes to our higher ratio."

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He also believes that by 2002 Stanbic can push its return on equity (ROE) to 23% from the current 20-21%. Again, the Nedcor forecast for the merged entity is much rosier. It wants 30% at the end of three years.

Maree said he found it hard to believe that the biggest bank in SA could achieve an ROE of 30%. "All sorts of pressures would emerge, especially from competitors."

The Stanbic board has demanded a cash alternative to the Nedcor offer of one Nedcor share for 5.5 Stanbics (or 5.25 Stanbics if the board recommends the deal).

Nedcor has rejected the demand, but Maree said that if Nedcor and its parent Old Mutual were "so sure that this is a good deal, why don't they put their money where their mouths are. It would be beyond Nedcor's resources, but Mutual would be able to finance a cash alternative."

Meanwhile, there is confusion over the position of the SA Society of Banking Officials. Sasbo issued a statement on Thursday apparently voicing opposition to the merger, but a follow-up statement from another Sasbo member and merger supporter on Friday said the initial announcement was factually inaccurate "and hints at a different agenda".

It is unclear which statement reflects the official view.

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NEWS WORTH KNOWING

Tuesday, 22 August 2006

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**1st Ed - LETTERS - NEDCOR-STANBIC MERGER BID DRIVEN BY
VESTED INTERESTS**

1999/11/22 12:00:00 AM

Dear Sir,

I HAVE been monitoring the events surrounding the potentially hostile takeover by Nedcor of Standard Bank Investment Corporation (Stanbic). It is amazing that one shareholder, Old Mutual, can bully others into compliance, despite basic flaws in the transaction.

Nedcor has successfully reduced its cost-to-income ratio to the lowest of the big four banks in SA. However, this has been to the detriment of its market share and future earnings.

It has now woken up to the fact that it has lost direction and market share. CEO Richard Laubscher, who wants to protect Nedcor's future, has failed to buy other institutions. If he fails again this time, will Nedcor be here in a few years time and will he have a job? It would be good for SA if this bid were mounted by a foreign bank as that would introduce more competition and a new banking ethos.

Stanbic's 1998 performance was poor, and this can be attributed to losses stemming from Russian debt and a few problem loans such as Gotvil.

Is SA's institutional investor community so short-sighted that it has forgotten the facts that led to Stanbic being undervalued?

Stanbic has written off its exposure, but is expected to recoup its losses this year, while the prices for Russian debt have improved. If the SA investor community was patient it would see an improvement in Stanbic's profitability in three to six months. It would then realise that Nedcor's bid is underpriced by about 33% to 50%.

Should this deal be allowed? Michael Katz says it should, but he has a vested interest. He bases his decision on the fact that Nedcor would have only 50.5%, meaning that it would not own the merged bank.

But a simple majority means that Nedcor will control Stanbic and therefore about 40% of SA's banking industry. This should not be allowed. The Competition Commission should seek advice from its peers in Europe. The US banking industry is fragmented so no bank can control more than 10% of the market.

The UK's monopolies commission would not permit any of the large UK banks to take over NatWest, so how can SA's Competition Commission not react to this potential monopoly? Turning to Old Mutual and its massive exposure in SA's banking industry, it is overweight

Foreign bankers do not like the prospect of this monopoly. SA banks need lines from foreign banks.

Will the cultures of the two groups merge? No, in hostile takeovers the merger of executives does not work. We can expect Stanbics executives to leave if the merger goes ahead. Does Nedcor have the resources to manage the institution? No. What will be the impact on staff? It is obvious there will be job losses due to economies of scale and Nedcor's focus on reducing cost-to-income ratios.

Finally, will this hostile takeover result in a strong institution that controls 40% of the SA market? No, it will not. The merged institution will lose sight of growth, service and new products while it focuses on the battle in the executive offices and bringing together two different systems and cultures.

First National Bank and the Rand Merchant Bank merged, but since then the merged group has turned inward in a bid to get the new institution working.

The same applied to Chase and Chemical when they merged. It takes time to merge on a friendly basis. However, a hostile bid leads to blood-letting whose effects take a while to undo. It is also detrimental to good service and shareholder value.

I am a policyholder with Old Mutual and am very concerned that the merger will destroy rather than create additional value. Nedcor has already said it would cut the cost-to-income ratio of the banks, resulting in widespread retrenchments. How do unions feel about this?

Will Nedcor's executives wake up in a few years' time to the fact that they have successfully cut the cost-to-income ratio (they have a proven track record in this respect), destroyed morale and business growth prospects and try to do the same again. Look out, ABSA.

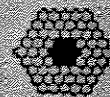
I believe that there are vested interests, with Old Mutual on the trying to gain favour with analysts, while Nedcor's executives are trying to preserve their positions at the expense of shareholders, staff and customers.

There is no unique selling point to create value in this transaction.

For First National and Rand Merchant Bank, there was a unique selling point the transaction merged a commercial bank and a merchant bank. First Rand's ratio is 17:1. Do not expect the price-to-earnings ratio for NedStan to reach that level.

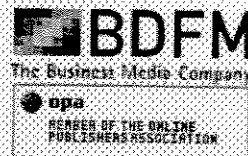
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**1st-Ed - BIGGER IS NOT ALWAYS BETTER, SAYS MAREE**

1999/11/22 12:00:00 AM

SA DOES not necessarily need to follow the global trend in bank mergers, and size is not necessarily an advantage in this market, Standard Bank Investment Corporation (Stanbic) CE Jacko Maree said.

Maree was giving a taste of his groups defence against the hostile takeover bid for Stanbic which Nedcor announced last week. Stanbic plans to present a detailed defence to the investment community later this week.

Nedcor CE Richard Laubscher has argued that the industry is consolidating internationally and SA needs a sizeable player, who can be a national champion. Maree counters that size in itself is not a good thing.

A merged bank would still be tiny by global standards, and would still be constrained by exchange control. Stanbics balance sheet had never prevented it growing in African or other emerging markets, Maree said.

Conversely, a merged bank would face new pressures within SA. As the largest banking group it would lose customers and have limited growth prospects.

Bank mergers in Europe have been driven largely by the move to a single currency, and by cross-border competition, while the US trend has been helped by legislative changes.

Maree said few international mergers have involved market shares as large as 35% the estimated share of the merged entity. He estimates the merger has no more than a 50% chance of success, with the fact that it is now openly hostile dramatically reducing the likely benefits.

Maree called on investors not to focus exclusively on banks cost-to-income ratios. Nedcor identifies cost-cutting as one of its key strengths, and has focused on the fact that Stanbics end-1998 cost ratio was 62% to Nedcors 56%. The merger proposal sees the cost ratio of the merged entity falling to below 50% within three years.

Stanbics higher costs partly reflect its strategic direction. EPlan, its vehicle for lower income earners, now has 2.5-million customers and continues to gain 30000 to 40000 customers a month. The operation runs at a cost-to-income ratio of 80%. Of course I could cut the groups cost ratio if I got out of the mass market, Maree said. But this is where SAs future growth lies.

Stanbic agrees broadly with Nedcors estimates of the cost savings but believes Nedcor has significantly underestimated the upfront costs and the ongoing costs.

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Tuesday, 22 August 2006

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1999/11/22 12:00:00 AM

LETTERS - GOODWILL CANNOT BE BOUGHT, IT HAS TO BE EARNED

Dear Sir,

AS A Standard Bank client for 49 years I must express my disgust at the hostile bid engineered by Chris Liebenberg to gain control of the bank.

One would have thought that, as a person believed to possess business acumen, he would appreciate that shareholders are normally speculators who will sell, provided the carrot dangled is to their financial advantage.

Bank clients, however are in a different category. They continue to support a provider-supplier if a high level of goodwill exists between both parties.

Liebenberg fails to appreciate that goodwill cannot be bought. It has to be earned. In my case and I am certain that this is so for thousands of other Standard Bank clients the acquisition of the bank by Nedcor will mean that my 49-year association will cease.

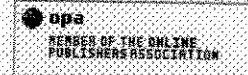
Let us, furthermore, warn Liebenberg that if his hostile move proves to be a disaster there is no way in which he can request the Reserve Bank to bail out Nedcor.

R Mason Johannesburg



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Staff association backs Nedcor bid

By Richard Stovin-Bradford

Johannesburg - The Insurance and Banking Staff Association (Ibsa), with between 5 000 and 6 000 members at Nedcor, as well as members at controlling company Old Mutual and other life offices, yesterday threw its weight behind Nedcor's hostile takeover offer for Standard Bank Investment Corporation (Stanbic).

Stanbic, which is fending off Nedcor's advances, last night said it would outline its "stand-alone" case tomorrow.

Ibsa, calling itself "the independent financial union", is predominantly a Nedcor staff association, market sources said. It has no known Stanbic members.

Ibsa said in a statement that from the business case presented by Nedcor it was apparent the merger would create a "dynamic banking force" that could compete with international banks.

"Although this may initially lead to a reduction in staff numbers to effect economies of scale, in the long run it is bound to create job opportunities and scope for advancement," it said, citing the example of Nedcor's integration of Permanent Bank.

The bank tussle has fuelled emotive speculation in certain media and labour constituencies that the merger of Nedcor and Stanbic could cause 10 000 job losses. But the figure was only used by Nedcor in its synergy benefit assumptions and was largely predicated on natural staff attrition at the two banks.

Mike Leeming, an executive director of Nedcor, said last week: "We believe significant lay-offs are going to be avoidable because of a natural attrition rate of between 12 percent and 14 percent."

Ibsa's stance is at variance with that of the Johannesburg branch of the South African Society of Banking Officials (Sasbo), the Cosatu-affiliated banking union, which last week adopted a resolution opposing Nedcor's takeover of Stanbic, saying "the resultant job losses would not be in South Africa's interests".

The branch told Sasbo nationally "to use its influence and power" to protect the jobs of Nedcor and Stanbic employees.

Ibsa said it had the assurance of Nedcor executives that "staff turnover and the shortage of skills" would be used to take care of the majority of redundancies that may arise.

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Tuesday, 22 August 2006

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**NEDCOR, STANBIC IN REGULATORY DISPUTE**

1999/11/24 12:00:00 AM

**Will deal be judged by registrar and minister, or by competition tribunal?
A DISPUTE has surfaced over which regulatory body will have the final say
on Nedcor's hostile bid for Standard Bank Investment Corporation.**

At issue is whether the Banks Act or the Competition Act should have primacy, with Stanbic favouring the authority of the competition tribunal while Nedcor believes the deal should be judged only by the finance minister and registrar of banks.

The disagreement comes on the eve of Stanbic's detailed defence against the bid, which would create SAs biggest bank. At a briefing tomorrow, Stanbic will highlight the risks of the merger and provide its own estimates of the cost savings and of the expected one-off costs and revenue losses.

Stanbic has so far spent more than R25m on advisers fees for its defence, including research by investment bank JP Morgan and management consultancy McKinsey. Stanbic believes Nedcor has significantly underestimated the revenue losses and overplayed the likely benefits. Stanbic will also detail its prospects as a stand-alone entity, focusing on the future benefits of its bancassurance agreement with Liberty Life and future revenue growth from forays into the mass market and abroad.

Shareholders with about 40% of Stanbic's shares have signed irrevocable letters of support for the Nedcor bid, up from 35% last Monday. Stanbic had formally notified the Competition Commission of Nedcor's hostile takeover offer, the commission's compliance manager Astrid Ludin confirmed.

The new Competition Act says all large mergers or acquisitions have to be investigated by the commission. The 10-member competition tribunal decides whether or not to give the go-ahead. It is understood, however, that Nedcor's view is that the tribunal does not have jurisdiction over the deal, and that it requires the sanction only of Finance Minister Trevor Manuel, in terms of the Banks Act. Nedcor has said its offer for 50,1% of Stanbic is conditional on the approval of the registrar of banks and the finance minister.

Legal sources say Nedcor's view hinges on a clause in the Competition Act which says that the commission does not have to be notified of deals that are subject to clearance by another regulator. In terms of the Banks Act, the registrar of banks has to authorise any acquisition of more than 15% of a bank's shares, and the finance minister has to clear larger

bringing to 20 the number of institutions supporting the bid in some form. Of the 40% who have given irrevocable letters, about 5% support the bid only at the higher share swap ratio of 5,25.

Nedcor's offer is one Nedcor share for every 5,5 Stanbic units, but it has said it will raise this to 5,25 if Stanbic's board recommends the merger.

A further group of shareholders has expressed verbal or written support for the concept of a merger, bringing the total to just on 50%.

Stanbic asked the Securities Regulation Panel last week to force disclosure of the conditions included in the irrevocable letters, but a Nedcor source said the only relevant conditions allowed shareholders to accept a higher offer, and to trade up to 20% of their shares during the offer period.

Some had specified that Nedcor had to announce its offer within 15 days. It has already complied with this.

Nedcor believes the Stanbic board controls about 24% of Stanbic's shares. This is why it has offered for only 50,1% of the shares it does not believe it could get the 90% required to effect a full merger and is hoping to persuade Stanbic's board to recommend merging. The 24% includes 7% in treasury stock, which Stanbic acquired when Liberty Life unbundled its stake in the banking group earlier this year, as well as 2,8% in Stanbic's retirement funds and at least 1,5% held by directors.

Nedcor also views stakes totalling 12,5% held by Liberty policyholders and in Liberty Asset Management as being under Stanbic's influence.

These are big chunks of savings which were not people dependent and could be achieved even if the merger process went less than smoothly.

IT savings: Page 15



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**1st Ed - THE BOTTOM LINE -STANBIC TAKES OFF THE GLOVES,
LANDING A BLOW TO NEDCOR BID ***

1999/11/26 12:00:00 AM

SA HAS not seen the likes of the presentation given yesterday by Standard Bank Investment Corporation (Stanbic) to defend itself against Nedcor's hostile takeover bid.

Stanbic CE Jacko Maree kept the best for the very end, delivering what could be a knockout blow with his disclosure that a year ago Nedcor and Old Mutual offered to buy Liberty Life's controlling stake in Stanbic at a swap ratio of 4,35 (Nedcor's current offer is no better than 5,25).

Maree also shifted the agenda by questioning whether the very concept of a bank-on-bank merger was an appropriate one in the SA context. This challenged the assumption by many analysts and fund managers that a deal was just a question of price.

Stanbic did not just assert that the merger was more risky than Nedcor estimates.

It dissected Nedcor's case and provided its own detailed analysis of the likely costs and benefits. It argued that the rewards for Stanbic shareholders simply did not stack up.

Maree has called on Stanbic shareholders to wait and see. The process is likely to last another few months. Meanwhile, Nedcor will have to pull some new rabbits out of its hat to shift the debate back in its favour.

Legions of advisers

TAKEOVER battles are rare in SA. Dow Chemicals bid for Sentrachem did not stay hostile for long because Dow raised its price.

Fedsures battle for SA Druggists had some nasty moments but the deal was stopped in the end by competition regulators.

The Nedcor bid for Stanbic is much larger and has a higher profile than either of those. It has all the hallmarks investors in markets abroad have come to expect, but which South Africans are unused to.

There are troops of advisers marshalled on each side. Nedcor has merchant bank SBC Warburg, management consultancy Bain and veteran public relations consultant Penelope Gracie plus lawyers, accountants and more.

On the defence, Stanbic retained merchant banks JP Morgan and Deutsche Bank, management consultancy McKinsey and UK-based public relations adviser Brunswick, as well as Andersen Consulting and a collection of other professionals.

only remaining one, PGSI, to go before the end of the year.

This leaves it as a dedicated beverages group ... with the exception of its hotel and gambling interests.

Wholly owned subsidiary Southern Sun lifted operating profit 33% in dollar terms, and 61% in rand terms, to R12m in the six months to September. Revenue per available room was down 1%. Although Southern Sun's hotel occupancies of 64% were above the industry average, they were lower than the previous year and it suffered with the rest of the industry from an oversupply of rooms, a sluggish economy and a slowdown in the growth in international tourism.

But gambling is becoming the key driver of its results. Its casino interests, held through associate Tsogo Sun, performed above expectations. The Sundome Casino, operating for a year, did particularly well and there are great hopes for the new R1,4bn Montecasino complex, the largest in Gauteng, which opens at the end of this year. Any bets that SAB will not be a seller until the newly liberated casino industry loses its novelty allure?

All change for lawyers

CONVERGENCE is a familiar term in information technology and telecommunications. It is less familiar in relation to professional services such as law and accounting.

But the boundaries are blurring between lawyers and merchant bankers, as well as between lawyers and others such as tax accountants and management consultants.

Clients' needs are changing as the clients themselves become more global. The result is that service providers are broadening their reach.

PricewaterhouseCoopers, for example, aspires to be one of the world's top three legal service providers within five years.

It already lays claim to being the fourth largest, with Landwell, the international network of law firms within the PWC fold, and other associated law practices, employing 1400 business lawyers practising in 42 countries.

Johannesburg law firm Bell, Dewar & Hall is Landwell's most recent recruit. The alliance Bell Dewar entered into with PWC this week does not involve any money changing hands.

But it gives the law firm access to an international network and client base without much loss of independence. Bell Dewar's lawyers will remain practising attorneys with all that implies.

The alliance does increase the potential for conflicts of interest, but law firms deal with that all the time and Landwell has strict guidelines on the issue.

If tying up with a merchant bank is one route, allying with a global accounting firm such as PWC is another. The third possible route is to join up with an international law firm. A couple of firms have already tried this. However, the imbalance in revenues caused by the weak rand tends to make such partnerships difficult.

Different law firms may choose different routes. But most, if not all, of SA's larger law firms will have to respond to convergence and globalisation over the next few years.



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Tuesday, 22 August 2006

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**STANBIC DROPS A BOMBSHELL**

1999/11/26 12:00:00 AM

CE Jacko Maree says far more generous terms were offered when Nedcor attempted to buy Liberty's stake a year ago

STANDARD Bank Investment Corporation (Stanbic) dropped a bombshell yesterday with the disclosure that Nedcor offered far more generous terms just more than a year ago than its current hostile offer.

Presenting Stanbics defence against Nedcors hostile takeover bid, Stanbic CE Jacko Maree said Nedcor suggested a swap ratio of 4,35 Stanbic shares for one Nedcor share in its approach to buy Liberty Lifes controlling 40% in Stanbic in September last year.

The ratio, which was 21% more favourable for Stanbic shareholders than the 5,5 specified in Nedcors current bid, gives you some idea of what the price should be, Maree said.

Nedcor CE Richard Laubscher confirmed yesterday the offer had been made, but said conditions were now very different.

Sources said Donald Gordon, Libertys chairman at the time, rejected last years offer as too low. Nedcors approach came soon after merger talks between Liberty and Stanbic failed, when Gordon was seeking a buyer for the Stanbic holding. Stanbic has since bought out Gordons joint controlling stake in Liberty, of which it now has sole control, while Liberty has unbundled its Stanbic stake to shareholders.

Laubscher said since Nedcor made its offer at 4,35, Stanbic had paid a big premium to win control of Liberty, failed to merge with it, experienced a number of large credit losses and reported 8% earnings growth. That offer was made at roughly the same premium that our offer represents over recent market prices.

Maree called on Stanbic shareholders yesterday to do nothing that they might regret later, saying the takeover process could take up to nine months. Stanbic shareholders in effect had a valuable free put option (an option to sell their shares) for six to nine months, Maree said. If they signed irrevocable undertakings of support for Nedcors offer, they forfeited their put option. He said fund managers who signed now could be sued by policyholders for not carrying out their duties responsibly.

Earlier this week, Nedcor had irrevocable letters of support from shareholders representing 35% to 40% of Stanbic. Maree said the Stanbic board had already succeeded in making Nedcor improve its initial market price offer of a 6,3 swap ratio to a 5,5 ratio.

Maree said Stanbic shareholders were being asked to take on all the risk, while only

business logic dictated that the merged group could not sustain its market share of about 35%.


Stanbic also queried Nedcor's estimate of R600m in revenue synergies (down from an original estimate of R900m) from banking, underbanked markets and bancassurance. The group was already involved in these activities and did not believe the merger would add to its prospects.

Maree said Stanbic was positioned to offer strong and sustainable returns to its shareholders. Stanbic shareholders were being offered less than half of the merged entity, but would contribute 14% more in earnings and 33% more capital. Clearly Stanbic delivers to Nedcor a unique growth opportunity on the cheap, with Nedcor shareholders getting the reward and Stanbic shareholders taking the risk, said Stanbic chairman Conrad Strauss.

Laubscher countered that Nedcor had a record of meeting or exceeding targets. We are confident that the merged entity will generate significantly higher earnings growth than would be possible for Stanbic on a stand-alone basis. Stanbic gained 40c yesterday to close at R21 while Nedcor gained R2 to R113, resulting in a ratio of 5,38.

The Bottom Line: Page 2


The battle for Stanbic: Page 24




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Thursday, 24 August 2006

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**The Tongaat-Hulett Group Limited****BATTLE FOR STANBIC - BANK WANTS TOP SPOT BACK**

1999/11/26 12:00:00 AM

Slashing costs through merger 'likely to produce only short-term results'
STANDARD Bank Investment Corporation is determined to prove it can
return to being SAs best-rated bank, Stanbic CE Jacko Maree said
yesterday as he presented the groups case for its defence against Nedcor's
hostile takeover bid.

Slashing costs, as Nedcor proposed to do through a merger, produced short-term results but did not provide a sustainable return for shareholders. Standing alone, Stanbic would deliver returns without taking on the risk of a merger, Maree said.

The groups management is budgeting for earnings a share to grow 27% this year, 26% next year and 23% in 2001. Its cost to income ratio is expected to fall to 58% in 2001 from 61% this year. Return on capital is expected to rise from 21% to 24% over the period.

The group has invested heavily to build its business in London and in Africa, as well as in its bancassurance tie-up with Liberty Life. Bancassurance is expected to deliver post-tax profits for Stanbic of R100m by next year and R340m by 2002. Standard Bank London has adopted a low-risk strategy and is funding itself more cheaply than the group does in SA because counterparties see it as less risky, Maree said. The London operation is expected to deliver a 15% after-tax return on equity this year and plans to get to 20%.

In SA, the group now has 2,5-million customers in E-Plan, its mass-market venture, and is well positioned to go into microlending once the turmoil in that market sorts itself out.

Nedcor, by contrast, has shed at least 600000 mass market customers in recent years.

Stanbics strategy builds for the future, while Nedcor has a narrower customer base and narrower business focus, Maree said. Nedcor is running out of road and is looking to benefit from the investments we have made, which belong to Stanbic shareholders.

Maree said the risk of merging banks was high and bank-on-bank mergers did not always create value. Adviser JP Morgans analysis of the five largest US bank-on-bank transactions in 1997/98 showed earnings for the two years after completion fell an average 13% short of the expectations at the time of the merger. The share prices of the merged entities have underperformed the banking index by an average 19%.

Over the past decade there have been about 1000 bank deals greater than \$100m, of which only 52 were hostile. Of these, only six were completed.

BUSINESSDAY

NEWS WORTH KNOWING

Thursday, 24 August 2006

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1st Ed - BATTLE FOR STANBIC ... UNIONS THREATEN LEGAL ACTION TO PREVENT MERGER
1999/11/26 12:00:00 AM

THE Congress of SA Trade Unions (Cosatu) yesterday threatened to take legal action to prevent a merger between Nedbank and Stanbic.

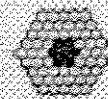
Meanwhile, Stanbic announced that 3000 jobs would be cut over the next three years. Cosatu and Sasbo, the finance union, said they were exploring the possibility of interdicting Nedcor to prevent its hostile takeover bid of Stanbic.

Cosatu general secretary Zwelinzima Vavi said the federation rejected and condemned moves by Stanbic which Nedcor has said would result in the loss of up to 10000 jobs. The decision to consider legal action, including the possible interdicting of the takeover, had been taken during the federations central executive committee meeting this week. The federation said the proposed merger would not be in the interests of the economy as it would create a nearmonopoly dispensation in the banking industry. Cosatu said a proposed interdict will be considered if Nedcor has failed to comply with labour legislation or the rules of the competition board. Nedcor had failed to engage in a proper consultation process with workers or the union on the proposed merger.

Cosatu said Sasbo had refuted public claims that the union had been fully consulted on the merger. The union was privy to a video presentation and leaflets of the companies plans. At no stage was there an attempt to conduct a genuine process of consultation, Cosatu said.

Meanwhile, Stanbic CEO Jacko Maree acknowledged yesterday that there would be job losses in banking, saying the bank was looking at a headcount reduction of about 1000 a year over the next 3 years. But this is a lot less than what would emerge from a merger, he said. Nedcor are looking at a loss of about 10000 jobs in a merged entity.

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COMPANIES

Gordon triggered Nedcor bid

BATTLE OF THE BANKS

By AMANDA VERMEULEN

THE breakdown in relations between Liberty Life founder Donald Gordon and Standard Bank management over the past four years was the catalyst for Nedcor's attempts to take control of Stanbic.

The relationship between Gordon and Stanbic management began deteriorating before Stanbic chairman Conrad Strauss and former CE Mike Vosloo took over. Several attempts at reconciliation failed.

This week, Gordon said: "There was a lot of emotion around the failed merger last year. At the time I was upset and there was some tension with Vosloo, so I thought the solution would be to buy back control of Liberty Life Controlling Corporation by buying Stanbic's 50%. This offer was rejected almost immediately."

He said Liberty could have acquired an additional 8% of Stanbic, and taken control of the bank, "but that was seen as a huge responsibility, and we were very reluctant. Another solution then was to sell our interest in Stanbic, and use the proceeds to buy back Liberty Life Controlling Corporation."

This led to Gordon and Nedcor CE Richard Laubscher having talks in August and September last year about Nedcor buying Liberty's 42% interest in Stanbic to allow Gordon to exit the relationship.

outsourcin...

Laubscher said that deal was valued at a 20% premium to the then ruling spot price ratio of the Stanbic shares.

THE WEEK AHEAD...

Are sharks among shoals of poor really s...

Jacko Maree, who took over from Vosloo as CE last month, said this week the premium was actually 25%.

NEI Africa looks ripe for a run after un...

Gordon said Stanbic management was made aware of the original Nedcor offer in August last year, which he rejected as being below fair value. His asking price was a ratio of less than four to one. But Maree, who was then deputy group CE, and Laubscher had two informal meetings about the issue .

There's magic in Cons Murch shar...

Stanbic launched a second bid at a bancassurance deal with Liberty at the end of the year. Again, it fell through.

SA company kits out foreign food giant...

Gordon said his poor health at the end of last year had been a "wake-up call". Stanbic still wanted to pursue a bancassurance strategy so it opted to buy Gordon out. This resulted in Stanbic taking control of Liberty and allowing Gordon a profitable exit from the relationship. It also removed him as a forceful chairman of Liberty.

Absa hopes restructuring will change for...

Remgro boosts earnings by 22...

This deal was settled by giving Gordon control of Liberty International, cash, and two tranches of Stanbic shares worth R3-billion at an aggregate price of R18.25 a share.

Black freight group challenges big firm...

Stanbic hoped to delay the second issue, but Gordon imposed onerous conditions which left Stanbic with the choice of issuing the second tranche in June at R19 a share (the first issue was at R17.50) or possibly at a later date at R16.50 a share. "Under the circumstances, the price at which those Stanbic shares were issued was deemed fair," Maree told BT last month.

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Gordon's exit from an executive role at Liberty Life opened the door for it to reassess its investment in Stanbic, which had been suffering from an underperforming share price. The bank had been knocked by bad publicity after its large Russian debt exposure and dismal earnings performance last year.

Liberty and Stanbic then decided that Liberty should unbundle its Stanbic shares, dispersing the stake among 20 000 to 30 000 shareholders and leaving Old Mutual with the single largest holding of around 23%, making Stanbic vulnerable to a takeover attempt.

argues that it must also be assessed by the Competition Commission, a process which could take up to three months.

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Tuesday, 22 August 2006

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**1st Ed - NEDCOR WANTS SASBO TO CLARIFY ITS STANCE ***

1999/11/30 12:00:00 AM

Challenge follows confusion over which position has been endorsed by members

NEDCOR has asked the leadership of the Congress of SA Trade Unions finance union Sasbo to clarify the unions position on the banks proposed merger with Standard Bank Investment Corporation (Stanbic).

Nedcor's challenge follows conflicting reports about whether the unions structures have taken a resolution to oppose the merger or whether the resolution adopted was to oppose and challenge the bank on job losses.

Sasbo general secretary Graham Rowan said yesterday that Nedcor has issued the union with an ultimatum. Either it had to change its stance on the proposed merger or else the union and its leadership would be discredited.

Nedcor executive director Lot Ndlovu said yesterday the bank had asked the union to clarify whether its structures had adopted a resolution to oppose job losses or the merger.

There appeared to be confusion among members which position has been endorsed.

Ndlovu said at no time did the bank demand that Sasbo fall into line with its position to support the merger. All we are asking is that the union reflect an accurate position and not to take sides unduly.

Rowan said Ndlovu claimed Nedcor has evidence from some Sasbo members (mostly Nedcor employees) which indicated that he, (Rowan), and not Sasbo members, was opposed to the hostile takeover bid.

Rowan rejected this allegation. But senior union officials said Rowan and the paid-up secretariat were opposed to the merger while a large number of members were not.

The union source said the secretariat had not consulted Nedcor staff on their position. Nedcor is scraping the bottom of the barrel. Sasbo is one of the countrys most democratic forums, Rowan said.

Senior union sources said Sasbo was not being run democratically. The union is being run in an authoritarian and manipulative manner.

In recent months the union has been dogged by a number of suspensions and the dismissal of senior officials. A union source has said that all these individuals were black.

BUSINESSDAY

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Tuesday, 22 August 2006

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New: Boost your E-conversion with multivariate marketing experiments!

[Advertise on this site](#)**LIBAM PENSION TRUSTEES TO VOTE ON NEDCOR BID**

1999/11/30 12:00:00 AM

LIBERTY Asset Management (Libam) is to take the unusual step of bringing pension fund trustees in on the crucial decision of how to vote their shares in Nedcor's hostile bid for Standard Bank Investment Corporation (Stanbic).

The move contrasts with the decision of other asset managers, most notably Old Mutual, who have voted the shares themselves, as they are entitled to do in terms of standard mandates for managing pension fund money. Institutions holding at least 30% of Stanbic's shares have already signed irrevocable commitments to support Nedcor's bid.

Liberty is the second-largest shareholder in Stanbic after Old Mutual. The bulk of Old Mutual's 23% of Stanbic is held on behalf of policyholders while its 51% stake in Nedcor is held for the account of Old Mutual shareholders.

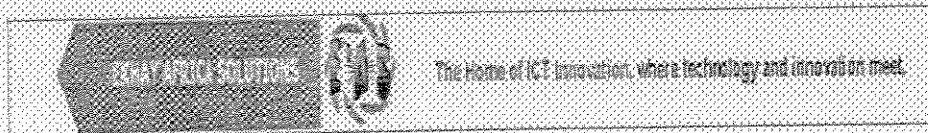
We will make recommendations to trustees. We will not vote those shares unilaterally, said Liberty's chief investment officer Sidney Place. Liberty Life holds about 12% of Stanbic, but most of this is held in the group's life fund.

The Liberty Life board, acting as trustee for the life fund, will make the final decision on these shares, and on the shares held in unit trust funds. However, Liberty will consult trustees on the fate of the Stanbic shares held for corporate pension and provident funds, even though it is not required to do so in terms of its standard mandates.

Place said Liberty would follow best international practice by acting transparently. It would make its recommendation to trustees once Nedcor's offer had passed regulatory hurdles and there was a firm offer on the table.

Place firmly rejected a claim made last week by Nedcor sources that Liberty's shares were under the control of the Stanbic board.

Unions position on merger : Page 19



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**1st Ed - OLD MUTUAL IS FIRM ON STANBIC, NEDCOR SHARES
VOTING STANCE**

1999/12/01 12:00:00 AM

**OLD Mutual yesterday strongly defended its stance in the controversy
surrounding the voting of its shares in Nedcor and Standard Bank
Investment Corporation (Stanbic).**

Old Mutual Asset Management (Omam), which manages funds for third parties such as pension funds, is acting independently of its parent company. It said it had not decided whether to vote the 2,3% of Stanbic under its control for or against Nedcor's hostile takeover bid, and may refer the matter to pension fund trustees.

It also emerged yesterday that Old Mutual is one of only two Stanbic shareholders to put a time limit on the irrevocable letter of commitment it signed in support of Nedcor's offer. The letter, which covers the 21,4% held in the life fund and by Old Mutual shareholders, will expire on January 31.

We always include a drop dead date when we sign irrevocables. We never make open-ended commitments, said Old Mutual executive GM (finance) Roddy Sparks. The decision to vote the life fund shares in favour of Nedcor's offer was made by an independent committee chaired by University of Stellenbosch principal Andreas van Wyk at the beginning of November.

Nedcor CE Richard Laubscher said his group was confident Old Mutual's support would be renewed at the end of next month. Sparks said: We have heard nothing so far from Stanbic or its advisers which could lead us to change our minds about the merger.

Laubscher said the percentage of Stanbic shareholders supporting Nedcor's offer was pretty overwhelming. Fifteen institutional shareholders, with 36,3% of Stanbic, have now signed irrevocable letters of support for the bid.

Of these, only 31,4% are committed to Nedcor's offer at a swap ratio of 5,5. The other 4,9% support the bid only at the recommended ratio of 5,25. A further five institutions holding 9,9% of Stanbic have written letters of support.

Laubscher said some were foreign institutions not permitted to sign irrevocables. The Securities Regulation Panel had seen the letters, he said. This comes after Stanbic asked the panel last month to demand Nedcor disclose the conditions in the irrevocable letters and the nature of the letters of support.

Responding yesterday to Stanbic's defence, Nedcor chairman Chris Liebenberg said his

Union takes umbrage at Nedcor

By Frank Nxumalo

Johannesburg - The strained relations between the South African Society of Banks Officials (Sasbo), the Cosatu affiliated finance union, and Nedcor over the latter's hostile bid for Standard Bank Investment Corporation (Stabnic) took a knock yesterday, with Sasbo accusing the bank of trying to forge a "clumsy alliance" with union dissidents.

Sasbo said it had "noted with disdain" Nedcor's consorting with a "disgraced president who has been suspended by his colleagues for indiscipline, abusiveness and the use of foul language".

Sasbo was at odds with George Selebi, its president, for claiming that an anti-merger stance was never taken at the annual general meeting of the union's Johannesburg branch last week.

Selebi told Nedcor the meeting had instructed Graeme Rowan, the union's general secretary, to do everything possible to save an estimated 10 000 job losses over three years that could result from the proposed merger.

"The bank obviously wants to decoy Nedcor and Standard Bank employees from the real issues if the present Nedcor regime gains control," Rowan said. "The resolution deploring Nedcor's acquisition was read to the meeting no less than four times and it was Selebi who supervised the voting process, there was not a single dissenting vote."

He said Selebi needed to explain his departure from Cosatu's position on mergers and job losses.

Selebi declined to comment.

Published on the web by Business Report on December 2, 1999.

Sasbo wins support for its anti-merger stance

By Frank Nxumalo

Johannesburg - The South African Society of Bank Officials (Sasbo), the Cosatu-affiliated finance union that opposes Nedcor's hostile bid for Standard Bank Investment Corporation, received a pledge of support yesterday from the International Federation of Commercial Clerical Professional and Technical Employees (FIET).

FIET represents 10 million members in the finance industry in more than 400 trade unions from 135 countries.

Sasbo has estimated that more than 10 000 bank jobs could be lost over three years because of the proposed banking merger.

"FIET cannot accept a takeover that has such savage repercussions on staff and their families," Philip Jennings, the general secretary of FIET, said in a letter to Chris Liebenberg, the chairman of Nedcor.

"Our affiliate Sasbo has no option but to take whatever action is deemed necessary to protect employment. We support the Sasbo campaign."

Jennings said South Africa could ill afford such a devastating blow to job prospects.

"All possibilities should be explored to introduce a fair, comprehensive social contract that avoids these horrendous job losses," Jennings said.

Nedcor could not be reached for comment.

Published on the web by Business Report on December 3, 1999.

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Nedcor-Stanbic decision postponed

By Richard Stovin-Bradford and Reuters

Johannesburg - The Reserve Bank would decide early next year whether Nedcor's hostile bid for Standard Bank Investment Corporation (Stanbic) could go ahead, Christo Wiese, the registrar of banks, said yesterday.

Wiese said the Reserve Bank had received an application from Nedcor on Tuesday to bid for Stanbic and that it could take "six weeks or so to come to a decision". This effectively postpones any decisive action on the bid until Y2K concerns had passed.

He said the merger fell within the Bank's jurisdiction and it would review it with the Competition Commission, but the Banks Act would prevail. If the two entities disagreed on whether the merger should proceed, they would refer the decision to Trevor Manuel, the finance minister.

Nedcor does not want Manuel to pronounce on the matter. Manuel has yet to make public his decision on CorpCapital's proposed takeover of the former Fulcrum Science and Technology Bank after some 18 months of deliberation. Although the transaction is of less market consequence than a merger of Nedcor and Stanbic, Fulcrum minority shareholders have not been able to accept the offer while it has been under review by Manuel.

An analyst said: "I don't know what all the debate's about. If you're regulated by another authority, you don't have to make a submission to the competition authorities, except as a courtesy."

But Jacko Maree, Stanbic's chief executive, said: "We're keen the competition process goes the full distance and that this matter is heard by the full competition

Nedcor rose 280c to R119,60 and Stanbic rose 15c to R22,10.

Published on the web by Business Report on December 3, 1999.

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Stanbic goes to court

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The bank wants a legal ruling on which authorities should rule on Nedcor's takeover plan, writes AMANDA VERMEULEN

[Sappi walks tall again despite heavy wea...](#)

STANDARD Bank plans to apply to the High Court this week for an order to establish which regulators should rule on Nedcor's takeover plan, the largest in SA's banking history.

[Aflease looking like new success stor...](#)

The Stanbic board has on several occasions rejected Nedcor's plan and the various regulators have been locked in talks for weeks over which body has ruling authority.

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Christo Wiese, Registrar of Banks, maintains the decision is his, although he concedes that he will have to consult with the competition authorities.

[US airline set to fly SAA-spurned Miami...](#)

But Alistair Ruiters of the Competition Commission has told BT that the size and national importance of the transaction means that it requires an investigation by the competition regulator, which could take up to 90 days.

[Signs of renewal at Omni as profits ris...](#)

In a letter to shareholders, Stanbic chairman Conrad Strauss says the board believes the nature of the takeover implies a significant impact on employees, customers, the banking and insurance industries, and the economy at large.

"Stanbic believes that all affected stakeholders require a transparent public process in which they are entitled to be heard. [Our] view is that the commission and Competition Tribunal were established to fulfil precisely this role."

Stanbic's argument for a hearing through the Competition Tribunal

THE WEEK
AHEA...

He said from a competition perspective, the deal would not be allowed in the UK, Canada or Australia.

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He said further justification for having the transaction go through the competition regulator was the likelihood that a successful deal would force Stanbic to unbundle its shareholding in Liberty Life.

"[This] might be anticompetitive in nature, given that Stanbic/Liberty is probably Old Mutual/Nedcor's most serious competitor."

Old Mutual is the parent company of Nedcor, but also owns a big slug of Stanbic shares.

Nedcor executives suggested this week that Stanbic's board was trying to use the regulators to defeat the deal.

Maree said that attempting to ensure that all regulators - and not just the banking registrar whose focus is quite narrow - give the transaction appropriate consideration was in the interests of everyone from shareholders to customers.

"So we can't be accused of stalling. In other jurisdictions, such as the UK, deals like this require two separate approvals: one from the banking regulator and one from the competition authority.

"How will it look to the outside world that SA's new competition authorities do not consider the largest transaction in the country's history?"

Stanbic once again raised the thorny issue of Nedcor's claims to have solid shareholder support, suggesting that Nedcor had not informed Stanbic shareholders of its earlier offer to Liberty Life last year of one Nedcor share for 4.35 Stanbic shares. At the time Liberty owned about 40% of Stanbic.

Stanbic argues that this "material non-disclosure" of the earlier offer could mean that the current irrevocable undertakings signed by some Stanbic shareholders could be legally challenged.

Nedcor has secured at least 15 irrevocables from Stanbic shareholders, and has a number of other letters of support. But this still does not give the bank its desired 50.1% support.

In addition, after Old Mutual, which owns about 22% of Stanbic,

Gensec's Anton Botha said it was standard for fund managers to respond to an offer "at the last minute - about an hour before it closes".

Sanlam, Liberty test the water, retreat from deal

SANLAM and Liberty Life have ruled out a merger although the parties appear to have tested the water before walking away, writes SVEN LUNSCHE.

In the current shake-up in financial services, very few players are not talking to each other and sources say Liberty and Sanlam have been communicating.

Sanlam executive chairman Marinus Daling would not comment, while Liblife CE Roy Andersen said there had been "no particular conversation with Sanlam". Both Liblife and Sanlam are re-evaluating their relationships with respective partner banks Stanbic and Absa.

Daling says Sanlam will decide by March next year whether to retain, increase or reduce its 25% interest in Absa. Analysts suggest an increase is unlikely.

Daling is sceptical of the benefits of mergers between large financial institutions. "The mere size of the deal between Nedcor and Stanbic raises problematic prospects, particularly as it is by no means a friendly bid."

Daling says his priority at present is to consolidate Sanlam's results and thus eliminate the discount between its current share price of around 760c and its embedded value of R10 a share. - I-Net Bridge

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Cool it, Tito tells banks

By James Lamont

Johannesburg - Tito Mboweni, the Reserve Bank governor, yesterday told Nedcor and Standard Bank Investment Corporation (Stanbic) to cool off the hostile bid process between them because it threatened to damage the South African banking sector.

Mboweni has forcefully stepped into the two-month-old bank battle in which Nedcor has proposed a merger with rival Stanbic, which has insisted on retaining its independence.

The government and the regulatory authorities have until now kept out of the fray. Christo Wiese, the registrar of banks, said last week he would pronounce on Nedcor's proposed merger early in the new year.

Today, Mboweni will make a public statement outlining his concerns and urging the banks to deal with the merger proposal in a "commercial and mature way".

"It has become very clear to us at the central bank that the issue is now being taken to extremes. They're now entering a huge political fight, which I'm not quite sure is in the interests of the banking system in South Africa."

Speaking at a Business Report/GQ magazine luncheon, Mboweni warned the banks to act professionally and avoid further antagonism, reminding them of the Reserve Bank's authority to issue and withdraw licences.

"We cannot afford a situation where our biggest banks on a daily basis are at each others' throats and in the process put into question the ability or otherwise of our people to manage the banking sector.

could proceed or not.

At the weekend Stanbic said it would appeal to the high court for an order that both the registrar and the Competition Board should rule on the proposed merger.

Mboweni was concerned by the role Old Mutual, Nedcor's parent and the main shareholder in Stanbic, was playing.

"I'm also very concerned about the behaviour of Old Mutual in this situation. I think they should also cool it. Its financial director, Eric Anstee, should cool it. I think he should know when to open his mouth and when to shut it, because he doesn't help anybody in issuing these inflammatory statements from London."

Anstee had threatened that Old Mutual would dump its 24 percent holding in Stanbic because the bank's board had neglected shareholder value.

"For as long as the central bank is very nice and quiet, it looks like some of the banks forget that actually the central bank is in charge E," Mboweni said.

"We can do all kinds of things that will make their lives very difficult in the manner in which we determine the liquidity requirement. So they must just remember that we are around."

Nedcor's share price rose R2,20 to R119 yesterday. Stanbic's gained 30c to R22.

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BUSINESSDAY

NEWS WORTH KNOWING

Tuesday, 22 August 2006

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**MBOWENI INTERVENES IN BANKS BATTLE**

1999/12/07 12:00:00 AM

Governor asks Stanbic and Nedcor to show maturity in their handling of proposed merger

RESERVE Bank governor Tito Mboweni intervened yesterday in the battle for control of Standard Bank Investment Corporation (Stanbic), taking Stanbic and Nedcor to task for their increasingly destructive tactics.

Mboweni asked Nedcor and Stanbic to cool it and said he would not be rushed into making a decision on Nedcors hostile bid.

The governor emphasised that he was not taking sides. But he said he was concerned that the public bunfight between two of the countrys biggest banks might not be good for the banking system. He appealed to the two banks to behave themselves.

He said he was disturbed the two had moved away from purely commercial to political arguments. They must show a maturity in managing the process. I dont see that now, he said. The Reserve Bank is due to issue a more detailed statement on the matter today.

Mboweni said he and his deputy governors are scheduled to discuss the proposed merger in mid-January and will not be pushed into considering it earlier. This seems to contradict a statement last week from registrar of banks Christo Wiese, who said he hoped to make a decision within six weeks. Mboweni would not comment on the registrars timetable.

Stanbic said yesterday it would launch a high court action this week, requesting clarity on which regulator will judge Nedcors hostile bid. Stanbic argues that the bid must be fully investigated by the competition authority and competition tribunal, and by setting a six-week deadline, Wiese is trying to bypass the competition authorities.

Nedcor has applied to the Reserve Bank to clear its proposed takeover of Stanbic. The chairmen and chief executives of both Nedcor and Stanbic have made presentations to the Bank. Mboweni said Nedcors document was long and complicated and the Bank would need to do a lot of research to assess whether what Nedcor proposed was good or bad for SA banking. The plan had been a year in the making and the Bank was not about to make up its mind in a month, Mboweni said.

As governor, his interest was in ensuring the stability of the banking system. To the extent that there were issues of market power and market dominance, this was for the competition authority to assess. Mboweni said the competition authoritys role was under discussion.

Mboweni also said he was concerned about Old Mutuals bulldog behaviour. Old Mutual is

Mboweni baffles bank boss

By Ed Stoddard

Johannesburg - Standard Bank Investment Corporation (Stanbic) said yesterday it wanted clarity on remarks made by Tito Mboweni, the Reserve Bank governor, regarding its merger battle with smaller rival Nedcor.

On Monday Mboweni stepped into the fray of Nedcor's hostile attempt to take over Stanbic, urging the two banks to cool a war of words he said was tarnishing the sector's reputation.

"I'm not quite sure what he (Mboweni) has in mind," said Conrad Strauss, Standard Bank's chairman. "We have reacted to a hostile process. We have responded in a way we deem appropriate.

"It is difficult to know how we should have behaved differently. We started off by rejecting the price and the ratio and then it became apparent that the bid was increasingly hostile."

Mboweni said the scrap between the two banks, the biggest hostile takeover bid in the country's corporate history, had "become less commercial and more political".

Strauss did not believe the battle had become politicised unless Mboweni was referring to Stanbic's attempt to have the Competition Commission rule on Nedcor's all-paper bid.

Stanbic says the competition authorities should have a say in the matter. It plans to go before the country's high court this week to seek an order for the proper regulatory authority to rule on the takeover bid.

application, adding that in many other countries competition authorities were usually the last hurdle for a merger to clear before it becomes a reality.

Stanbic hopes the Competition Commission will agree with its view that a merger would narrow consumer choice, as it would reduce the country's "big four" banks to just three.

Nedcor, which has not commented on Mboweni's remarks, hopes to create an African bank with assets of R300 billion.

Strauss reiterated Stanbic's view that the merger, especially if hostile, would not create value.

Stanbic closed 15c higher at R22,15 while Nedcor was up 140c at R120,40. - Reuters

Published on the web by Business Report on December 8, 1999.

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BUSINESSDAY

NEWS WORTH KNOWING

Tuesday, 22 August 2006

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**STANBIC COURT ACTION TO PROCEED**

1999/12/08 12:00:00 AM

STANDARD Bank Investment Corporation (Stanbic) is to proceed with its court action over who will adjudicate Nedcor's hostile bid, despite negotiations about the correct procedure between the Reserve Bank and the Competition Commission.

As the Bank unveiled plans for a wide-ranging investigation into Nedcor's bid, Stanbic said it would proceed with its application to the high court for a declaratory order on which regulator should judge the bid.

At issue is whether the bid needs to go through one regulatory hurdle or two. Reserve Bank governor Tito Mboweni indicated yesterday that the Bank viewed itself as the primary regulator in terms of the Banks Act; however, it was obliged to consult the competition authorities.

The Office of Banks and the Competition Commission are negotiating a memorandum of understanding to formalise a working relationship on this.

Stanbic CE Jacko Maree said his group's legal advice was that there were two separate acts, the Banks Act and the Competition Act, and the requirements of both had to be fulfilled. The deal has to be judged by the two selfstanding regulators, as was the case in the UK, Canada and Australia.

Maree said he was concerned that if the Bank planned merely to consult the competition authorities, the deal would bypass the competition tribunal the decision-making body and go only to the Competition Commission.

The high court was the only body which could rule on jurisdictional disputes. The application, which should take only a few weeks, would proceed parallel to the Reserve Banks investigations, Maree said.

Nedcor has applied to the Bank for clearance of its bid. Mboweni implied yesterday that it might be some time before the Bank provided an answer.

He said the Bank would consult foreign bank supervisors to obtain their views on financial stability and learn from their experience in assessing large bank mergers. In evaluating the deal, the Bank would look at the efficiency of service provision to customers in a merged entity compared with a scenario in which the two banking groups stood alone. It would also examine ownership structures and whether a merged entity would result in greater technological efficiency.

The plan is, apparently, that the competition authorities will decide how to proceed. This will be part of the memorandum of understanding.

The Bank will rule on the deal, but will take the competition authorities finding into account.

Both will be looking at efficiency considerations and sources say it is unlikely they will disagree, unless there are prudential considerations which counter competition considerations.

Comment: Page 9



Cash In Transit - Investigation

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BUSINESSDAY

NEWS WORTH KNOWING

Tuesday, 22 August 2006

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**COOL IT, GOVERNOR**

1999/12/08 12:00:00 AM

ONE wonders whether former labour minister, now Reserve Bank governor, Tito Mboweni thought he was intervening in a shop floor dispute when he told Nedcor and Standard Bank Investment Corporation to behave themselves.

There are crucial differences between a labour dispute and a corporate takeover battle. In the former, management and employees have to live with each other, giving both no choice but to settle, if needs be with help from an outside mediator.

The same does not necessarily apply on a corporate battlefield. The owners of a target company are perfectly entitled to reject the offer and see the predator off for good. Seen from that perspective, the Stanbic board has done exactly what it should to protect the interests of shareholders, vigorously fending off Nedcor's overtures and seeking a higher price. For its part, Nedcor is also acting in the interests of its shareholders, even if London-listed Old Mutual has been less than gentlemanly.

Perhaps the most important point Mboweni misses is that it is in the interests of shareholders, the banks customers and the public at large that the struggle for the country's second biggest banking group be waged as publicly and even as noisily as possible, rather than a deal being reached behind closed doors.

South Africans are not accustomed to the rough and tumble of a hostile takeover. But it is not for the governor of the Reserve Bank, in his role as chief bank supervisor, to turn back the clock.

This is not to say that Mboweni must remain silent. There have been times when Nedcor, particularly, has gone too far, for instance by raising questions about Stanbic's capital adequacy. Such insinuations could undermine public confidence in one of SA's largest banking groups, and therefore in the system as a whole. In such circumstances, Mboweni is entitled indeed he has a responsibility to ask the protagonists to cool it and to assure the public that there is no truth to the allegations. Let us not forget, it was just 15 years ago that Nedbank itself was being baled out by the Reserve Bank.

But Mboweni needs to tread a fine line. The central bank governor cannot be seen as partial. He should avoid interfering in matters which are for shareholders to decide. Nor, given SA's desire to adopt best international practice, will he do much for the image of its financial markets if he is seen trying to scupper a hostile takeover, as German Chancellor

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Tuesday, 22 August 2006

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COMPETITION BODY WILL JUDGE MERGER

1999/12/09 12:00:00 AM

NEDCOR's hostile takeover bid for Standard Bank Investment Corporation (Stanbic) will be judged by the Competition Tribunal, and if there is any doubt about its jurisdiction over competition matters the competition authority will seek to change the law, competition commissioner Alistair Ruiters says.

The commissioner's comments yesterday came after Reserve Bank governor Tito Mboweni said on Tuesday that the Bank would consult the competition authorities on the competition aspects of the deal, as it is required to do in terms of the Banks Act.

Ruiters said: There is no framework for us to be consulted other than the Competition Act.

We will apply it consistently, and adjudicate the NedcorStanbic deal as we would every other large merger. The Nedcor takeover bid is the first hostile deal to come before the new competition authority.

In terms of the legislation, the deal is a large merger, so the competition commission has 60 days to investigate it.

The commission then reports to the tribunal, which must convene a hearing within 15 days. No time limit is specified for the tribunal to reach a decision. The tribunal's jurisdiction over competition matters is subject to appeal to the Competition Appeal Court.

Echoing Mboweni, who earlier this week said the Bank would not be rushed into a decision on the deal, Ruiters said: Every application is urgent. We cannot and will not be pushed into time frames which those with commercial objectives have.

Ruiters said the competition authority had never doubted its jurisdiction in the Nedcor-Stanbic matter. If we don't have jurisdiction, we will change the Act, he said.

He emphasised that the competition authority's brief is to examine only the competition aspects of the deal. The Office of Banks in the Reserve Bank will separately examine the prudential and any potential systemic risk problems.

The two regulators are finalising an agreement which will demarcate the issues each will adjudicate. It is not a question of who has jurisdiction, but rather of where one jurisdiction begins and the other ends, Ruiters said. The agreement, which will set a precedent for relations between the two regulators in future bank mergers, will include a deadlock-breaking mechanism.

It remains unclear who has the final say if the two disagree. But Competition Tribunal

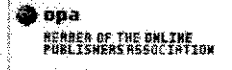
and may negotiate with the parties until the shape of the deal meets requirements
Exemptions from act: Page 3



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Thursday, 24 August 2006

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1st Ed - THE BOTTOM LINE - GET UP, STAND UP FOR YOUR
RIGHT TO REGULATE BANKING MERGER *

1999/12/10 12:00:00 AM

**THE battle of the banks was beginning to be more than a little predictable.
Fortunately, the battle of the regulators has provided the most recent
titillation.**

First, registrar of banks Christo Wiese said he was the regulator. It would take him six weeks to decide on the Nedcor-Stanbic deal. Then Reserve Bank governor Tito Mboweni said no, he was the central banks governor and since it is charged with bank supervision, he was the regulator and he would not be rushed.

Finally, competition commissioner Alistair Ruiters weighed in, making it clear he never doubted that he was the regulator and if anyone questioned his jurisdiction, the law would have to be changed.

Naturally, the Bank and the Competition Commission have been at pains this week to emphasise that though the takeover bid may be hostile, the regulators are not. They are in friendly talks on a memorandum of understanding that will demarcate responsibilities. The modus operandi detailed in the agreement will also hold for any future bank mergers.

But questions remain. In particular, must Nedcors bid clear separately through the two hurdles Competition Tribunal and registrar of banks? Or does one of the regulators have the final say?

It is not too surprising that Stanbic has not been swayed and is continuing with its application to the high court for a declaratory order that will clarify who really is the regulator.

Nedcor people have, of course, accused Stanbic of delaying tactics. But at this point the Stanbic court case looks sensible from any perspective. There is an apparent tension between the Banks Act and the new Competition Act. The issues raised by Nedcors bid are new and legal opinions have proliferated. A high court order should sort out the jurisdictional issue for good.

DBSA sets example

THE Development Bank of Southern Africa has invested almost half of its loan book in local authorities and has suffered no write-offs in recent years. Given the parlous state of the finances of many municipalities, there is a lesson for the private sector in the banks methods.

A recent government evaluation of the financial state of local authorities suggests that

authorities find it difficult to access private finance, so the bank either provides loans directly or it brokers private-sector involvement.

The bank has developed various programmes to safeguard its investments, concentrating its efforts on concerted capacity-building programmes. These are necessary to enable local governments to achieve their developmental role and maintain financial sustainability.

Development Bank CE Ian Goldin believes the key to the banks success in lending is that its officials get integrally involved with local authorities and are far closer to their activities than other lenders. The bank will allocate capacity-building resources, give technical assistance on financial and structural difficulties and help those that fall into arrears.

The banks future depends to a significant extent on the viability of these municipalities. The banks techniques may be costly and timeconsuming, but they make sound business sense.

Only halfway

AFTER 18 months of suffering, the investment community finally got an answer from the JCI group of companies about its restructuring.

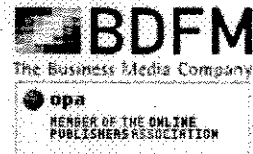
But, on careful examination, it seems like half a job. There is still a holding company owning part of another company, which in turn controls the assets. Legal provisos and conditions that need to be met and kept before next February complicate the matter. Also, the completion of the restructuring seems to depend on JCI moving its primary listing to Toronto. That is far from being a certainty.

JCI's half-heartedness is likely to continue to weigh down its share price. JCI has revealed its intentions and recognised that something needs to be done. But to rely on finance ministry approval for the Toronto move to complete the restructuring is risky. The feeling is that until certainty is attained, investors will keep on searching elsewhere to make their fortunes.

Phukubje Pierce Masithela Attorneys

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Stanbic goes to the bench to fend off Nedcor bid

By Edward West

Standard Bank has carried out its threat to go to court over which regulatory authority should rule on the threatened hostile takeover bid by Nedcor.

Jacko Maree, chief executive officer of Stanbic, submitted an application to the Transvaal Division of the High Court on Friday to get clarity on the jurisdiction of the competition authorities and the Reserve Bank on the matter.

Nedcor wants the Reserve Bank to adjudicate the merger in terms of the Banks Act.

Stanbic argues in its submission that the Competition Act applies and that regulatory approval has to be obtained under both the Competition Act and the Banks Act. There is parallel jurisdiction between Finance Minister Trevor Manuel and competition authorities, Stanbic contends.

Manuel, however, told Stanbic this week that the proposed takeover would be considered by the Registrar of Banks and the Competition Commission, and only if they did not agree with each other, would the matter be referred to the Competition Tribunal. Manuel would make the final decision.

But Maree said in Stanbic's founding affidavit that he had been advised that the process envisaged by Manuel was "ad hoc and a hybrid of the Banks Act and the Competition Act and lacks a proper legal foundation".

He said the proposed takeover would result in Stanbic being eliminated as an effective competitor. By Stanbic's estimate the post-takeover market share of the top three banks would range between 48 percent and 94 percent of the relevant markets for financial services.

suffer, Maree said.

A review of the recent memorandum of understanding drawn up between the Registrar of Banks and Competition Commission had forced Stanbic to conclude that the role of the competition authorities would be relegated and Stanbic had "no alternative but to proceed with an application to the High Court".

This week, the Competition Commission began asserting its jurisdiction over the issue. But Maree said this was in stark contrast to the position conveyed to Stanbic at a meeting with the commission on November 10, and appeared to conflict with the draft memorandum of understanding.

In addition, Stanbic had received no formal response to a letter addressed to the commission on November 17 seeking clarity on the issue.

Nedcor's proposed acquisition of a majority stake in Stanbic was anti-competitive and unlawful because minority shareholders in Stanbic were unprotected, Maree contended.

Nedcor's proposal also did not provide for regulatory consent for a change of control over Liberty Life, which could either be sold or unbundled should the merger go-ahead, he said.

The takeover would have serious repercussions for competition in the financial services market.

Liberty Life would ultimately fall under Old Mutual's control, and the bancassurance products being developed between Stanbic and Liberty would be seriously damaged should Liberty be sold or unbundled to shareholders, as Old Mutual and Nedcor have indicated they intended doing, Maree said.

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1999/12/13 12:00:00 AM

It is up to the minister to give his consent in hostile bid, says Nedcor's takeover target

FINANCE Minister Trevor Manuel has been brought into the battle over who will regulate Nedcor's hostile bid to take over Standard Bank Investment Corporation (Stanbic). In a court affidavit, Stanbic says Manuel, not the registrar of banks, must consent to the bid and the registrar thus cannot sign the memorandum of understanding the registrar is negotiating with competition authorities.

Stanbic last week applied to the high court to clarify the roles of the various regulators, amid confusion about whether the registrar, who is based in the Reserve Bank, or the competition tribunal, or both, would judge Nedcor's bid. Last week Reserve Bank governor Tito Mboweni and competition commissioner Alistair Ruiters said the two regulators were negotiating a memorandum of understanding defining their respective areas of jurisdiction.

But Stanbic CE Jacko Maree argues in the affidavit that this memorandum is unlawful. Under the Banks Act, the minister of finance must consider any acquisition of more than 49% of a bank. There is no statutory authority for the registrar to form part of the process. Maree also says the Competition Act does not allow for the creation of a new process for judging competition matters. The competition authorities can judge a merger only in terms of the existing process, in which the competition tribunal decides.

Maree questions the stance taken by Manuel, who told Stanbic chairman Conrad Strauss that the registrar of banks and the competition commission would consider the proposed takeover. The matter would be referred to the competition tribunal only if the two regulators did not agree, but Manuel would make the final decision.

Maree says: The process contemplated by the minister is ad hoc and lacks proper legal foundation.

Stanbic rejects banks registrar Christo Wiese's notion that he and the minister are the primary regulators. The group's position is that the two processes must operate in parallel, with the bid judged by the minister under the Banks Act and the competition tribunal under the Competition Act.

It also argues the bid needs the approval of the Financial Services Board, which must approve any change of control in the life assurance industry, in terms of the Long Term Insurance Act. Stanbic controls Liberty Life. The takeover, if implemented, would lead to a

The affidavit says the post-takeover market share of SAs top three banks would range between 48% and 94% of the relevant financial services markets a high level of concentration. Nedcor and Stanbic combined would be SAs biggest bank by far. The combined entity would have 53,9% of the card market and 53,8% of cash, cheque and transmission deposits.

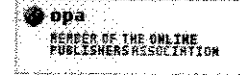
It would be an extraordinary result if a merger of such magnitude was not investigated and adjudicated by the new competition authorities under the Competition Act, the affidavit says.



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1999/12/13 12:00:00 AM

Dear Sir,

THE planned bid by Nedcor for Stanbic may be too pricey and too risky.

In Germany, a provision in companies articles still exists that no single shareholder, however big, can exercise more than 5% of the votes. German company law lacks a squeeze-out that would force minority shareholders to accept a bid once the bidders have secured 95% acceptance.

Another rejection might spark a hostile bid, but it should be decided on by shareholders, not by management.

I happen to deal with Nedcor as well as Stanbic and find both highly ineffective, negligent and poorly managed at branch level, when dealing with the man in the street.

HH Saenger Craighall



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Business Report has chosen Richard Laubscher, the chief executive of Nedcor, as its top newsmaker of the year. Laubscher has set the banking sector on fire with Nedcor's hostile bid for Standard Bank Investment Corporation. But he has also modernised the already low-cost Nedcor with forays into information technology with a Didata partnership and advisory services with the acquisition of law firm Edward Nathan & Friedland. Business Report will publish its annual Christmas quiz on Christmas Eve for you to pit your wits against its editorial team over the festive season. Be sure not to miss it - and the answers, which will be printed in the week beginning on January 3. Business Report will continue to publish international and local markets information over the Christmas and New Year period in The Star, Cape Times, Mercury and the Pretoria News. Publication of the latest in business news resumes on January 5. [Full Story...]

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Banking opened the door to much-needed change

By Richard Stovin-Bradford

Johannesburg - The noise surrounding Nedcor's hostile takeover bid for larger rival Standard Bank Investment Corporation (Stanbic) was just the wake-up call needed to stir South Africa's somnolent banking sector as the century drew to a close.

Banks elsewhere in the world, many of them role models for our own, have spent the year in something of a merger frenzy, purportedly in the relentless search for the Holy Grail of enhanced shareholder value. And anything the foreigners can do, we can do better, or so we are told around the braai.

Earlier in the year we became depressed when, for a second time, Liberty Life and Stanbic reached the altar rail and lost the wedding ring down the drain. We asked ourselves: could no one else follow the lead of RMB Holdings and Anglo American and kickstart the process of making sense of South African banking and financial services?

After Liberty Life's first trip to the altar a year ago, we said Nedcor looked poised to step in as Stanbic's next suitor, not least because both groups had Old Mutual blood coursing through their veins. We were not disappointed - until we realised the attempted takeover would be handled in a bizarrely hamfisted manner.

The whole affair looks to become a laughing stock locally and overseas, where this bid is being closely monitored because of its implications for Old Mutual's rerating hopes. And Stanbic shareholders cannot hope for a look-in on Nedcor's proposed offer until our so-called regulators have stopped passing it around like a hot potato.

The lack of preparedness for globalisation of our legislators and regulators and the conflicting laws and rules they have concocted have turned this into yet another reminder of the need to overhaul our regulatory system, as if we needed one.

It would be a pity if the final decision were taken on political rather than commercial grounds, but it could end up that way. After all, the ANC is well represented at the Reserve Bank and at the department of finance.

Nedcor that started the ball rolling and not one of our many banking minnows. The incredibly fragmented smaller end of the sector is just crying out for consolidation. It is possible, but by no means certain, that Nedcor could yet become a role model for our smaller banks.

Meanwhile, "niche bank" risks becoming a dirty epithet after the collapses of New Republic Bank (NRB) and FBC Fidelity, and we can only hope that the many smaller banks caught up in the fallout from the failure of healthcare group Macmed have seen the writing on the wall.

Hopefully, their credit committees will also think twice before allowing loan concentrations with inadequate security to build up on the scale they did.

Saambou, the high-yielding jewel in Fedsure's crown, sensibly steered clear of taking over the retail and commercial banking books of FBC Fidelity, but it has deftly taken on the NRB debtors' book on a collection basis. Nice business if you can get it.

Saambou and Mercantile Lisbon Bank Holdings (MLBH), another specialist bank, are about as small as one wants to go in retail banking.

Saambou has done well by selectively diversifying into financial services and even MLBH has been doing a spot of bulking in recent months in what promises to be an aggressive expansion drive in the new year. Things should improve with its renewed focus.

But it is in the pond occupied by African Merchant Bank, The Business Bank, CorpCapital and Real Africa Durolink that we had hoped to see real consolidation. Someone has got to encourage birth control to stop the procreation of any more Investec and Rand Merchant Bank (RMB) wannabes. The intellectual talent is beginning to look too thinly spread out there.

At least we were spared the population explosion that characterised the JSE's

but its rating still lags well behind where it wants it to be. As Nedcor and Stanbic may yet discover, mergers are punishing affairs for ratings and staff alike.

BoE used to be up there with the best, but its management seems to have lost the plot of late and we have lost our patience with its inability to understand anything other than asset management.

Even though BoE delivered some very sound results, it is in desperate need of attention to get its business mix right once and for all. BoE's managers should stick to their knitting and leave retail and investment banking to those who know better.

We now favour a break-up bid for BoE by, say, cash-rich Liberty Life, whereby the top niche widows and orphans asset management businesses are kept by Liberty, the banking and securities businesses are bought by Royal Bank of Canada Dominion Securities or Standard Corporate & Merchant Bank, and the Boland and NBS brands are jobbed to Nedcor, the multibrand specialist, as a kind of olive branch.

Absa, the country's largest bank and the one with the biggest slice of the personal market, had a tough year and, of all the banks, is probably keenest to see signs of an economic upturn. But its ducks are very much in a row and it is well placed to pounce on opportunities, particularly if the Nedcor bid goes ahead.

Generally speaking, an otherwise dreary year in the banking sector has been lit up at the last minute. The trouble is that it may be too little too late. As Internet-only banks, some with very pukka credentials, circle this market with a view to offering low-cost banking, those with legacy systems and bricks and mortar around their necks must surely be quaking in their veldskoene.

Absa has already announced plans to enter the fray with an Internet-only offering. Others will copy it locally.

© 1998 Business Report - Banking opened the door to much-needed change

Nedcor, the information technology-flavoured bank, has kept its powder dry on what it has planned for its year-old alliance with Capital One, the US financial services wizard. It has the wherewithal to be big out there, but so far it has underused the potential of its Peoples Bank brand.

Smart cards are, almost beyond doubt, the way ahead here. But, true to form, there is no agreement on a nationwide standard. Meaningful co-operation is not a forte of the banking sector.

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Regulators set for battle over Nedcor-Stanbic merger

JURISDICTION DISPUTE
By AMANDA VERMEULEN

THE Competition Commission and the Registrar of Banks are pitched for a court battle as both claim jurisdiction over the proposed Nedcor/Standard Bank merger.

Affidavits in response to Stanbic's legal action to gain clarity on regulators' roles point to conflicting interpretations.

Stanbic launched the action in December after statements were issued by the two regulators about who should assess the merits of the transaction.

The registrar, Christo Wiese, claims authority to decide on the merger, while the commission also believes it is entitled to do so. Both are working on a memorandum of understanding (MOU) to make a dual assessment of the matter possible.

Wiese says in his affidavit he was advised that the Competition Act did not apply to the proposed merger, and that he was required to do no more than consult with the commission.

He also says the competition issue - which is not the registrar's responsibility - may in certain circumstances be superseded by the interests of depositors or of financial stability.

Although he said he had not prejudged the merits of the merger, Wiese went on to say: "While the proposed merger may have far-reaching economic consequences, it may also have a salutary

because of considerations relating to a more cumbersome consultative process described in the Competition Act where people are consulted who are not part of the corporate governance or body of depositors in the companies (affected by the proposed merger)."

The registrar's role is to ensure the safety of the public's deposits with banks, the maintenance of a sound banking system, and a stable financial system.

Wiese also attacked Stanbic for disclosing the MOU details, saying its inclusion in the Stanbic affidavit was "premature, if not unchivalrous".

While Wiese said he was under no obligation, in terms of the Banks Act, to hear Stanbic's opposition to the Nedcor merger proposal, Finance Director General Maria Ramos said in her affidavit that the Finance Minister would hear both parties.

Without providing an explanation, Ramos said Stanbic had materially misstated the terms and effect of the MOU. "The document is still no more than a draft, which has not been accepted."

In his affidavit, Competition Commissioner Menzi Simelane said the authority had "never accepted the contents of the MOU.

"(The commission believes) that there is dual jurisdiction in respect of this matter. It has always been the intention of the commission that the MOU should recognise the jurisdiction of the commission and the application of the Competition Act."

He said the commission had already started investigating the matter.

Simelane said a view had been received from Advocate IAM Semanya, SC, on whether the Competition Act was applicable. He said Semanya's view indicated its jurisdiction was not excluded, and "that it intended to apply all the relevant provisions of the Act to the merger". Nedcor chairman Chris Liebenberg also submitted an affidavit.

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New: Boost your E-conversion with multivariate marketing experiments!

[Advertise on this site](#)**1st Ed - HOSTILE BID INVESTIGATION PUT ON HOLD PENDING COURT RULING**

2000/01/12 12:00:00 AM

THE competition commissions investigation of Nedcor's hostile bid for Standard Bank Investment Corporation (Stanbic) is on hold, while the commission waits for a high court ruling on who should regulate the deal.

However, Christo Wiese, registrar of banks, said his department was continuing its work on the bid and should be ready with its conclusions in about two weeks.

This comes after Stanbic applied to the high court last month to clarify the roles of the various regulators involved in the deal. The court is due to hear the matter on January 25.

The outcome of the court case will determine how soon Nedcor can expect to make a formal bid for Stanbic. This may be as early as next month, or as late as mid-year, assuming the authorities give the go-ahead.

Nedcor believes the transaction needs the approval of only the registrar of banks and finance minister, whom the Banks Act obliges merely to consult the competition authorities. Nedcor has therefore applied to the registrar for clearance but has not notified the competition authorities of its bid.

However, Stanbic CE Jacko Maree argues in his affidavit to the high court that the deal needs clearance from both the minister and the competition authorities, working in parallel, and that it must go through the full process of evaluation by the competition commission and tribunal.

Stanbic notified the competition authorities of the bid in November. The commissions compliance officer, Astrid Ludin, said some initial research had been done but the commission could not continue its investigation while the matter was sub judice.

Meanwhile, the commission and the registrar met again this week to finalise a memorandum of understanding on how they should proceed in this deal, and others requiring the approval of both regulators.

Stanbic has queried whether the registrar has the authority to enter into such an agreement.



BUSINESSDAY

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Tuesday, 22 August 2006

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ALL PARTIES WILL BE HEARD, SAYS RAMOS

2000/01/17 12:00:00 AM

NEDCOR, Standard Bank Investment Corporation and interested parties will have the chance to be heard when the registrar of banks weighs Nedcor's hostile bid for Stanbic, says finance director-general Maria Ramos.


However, in her response to Stanbic's application to the high court to clarify the role of the regulators in the bid, Ramos rejects Stanbic's argument that the Banks Act and the Competition Act both apply. Ramos says the finance minister does not have to wait for the full evaluation before deciding. Stanbic argues the deal must be cleared by the minister and the competition tribunal, with neither act having primacy. Nedcor disagrees. Registrar of banks Christo Wiese says as bank regulator, he is the lead regulator.

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BUSINESS ROUNDU...

Stanbic blows whistle on Registrar Wiese's 'favouritism'

MERGER REGULATORS
By AMANDA VERMEULEN

STANDARD Bank has raised concerns that the Registrar of Banks, Christo Wiese, "favours" Nedcor's merger bid without having given Stanbic the chance to present its argument about the competitive implications.

Stanbic launched a court action in December, citing 11 respondents, in a bid to gain clarity about the jurisdictional dispute between the Registrar of Banks and the Competition Commission.

The court date is set for this week.

Wiese is claiming sole jurisdiction over this transaction, while the commission believes it is legally entitled to assess the competitive implications.

In his affidavit, reported by Business Times last week, Wiese said there could be some argument for the creation of an internationally competitive financial services vehicle which would be in the interest of all South Africans.

He also said the commission's processes were cumbersome as they required consultation with parties who were not part of the corporate governance or depositors.

Stanbic CE Jacko Maree, responding in a follow-up affidavit to

Nedcor bosses fall victim to Stannic ribaldry

By Peter de Ionno

Nedcor's top brass are shrugging off reports that they were the object of pointed corporate voodoo and tomfoolery at an end-of-year party in December attended by senior managers and directors of their intended takeover victim, Standard Bank Investment Corporation (Stanbic).

John Bryant, Stanbic's corporate affairs manager, organised the lavish event, to which wives were invited, at Vodaworld in Midrand. Although he vehemently denied that photographs of Nedcor chairman Chris Liebenberg and chief executive Richard Laubscher were used as dart targets by well lubricated revellers, he admitted that dartboards were part of the festivities.

"The theme for the party was comic strips and there were pictures of comic characters on the dart boards, but they had nothing to do with Nedcor," Bryant insisted.

"It has been a tough year and we had a fantastic party for executives to motivate them for the year ahead."

However, given that recollections of office parties the morning after are often a little hazy, two senior Stanbic executives told BR on Sunday that colleagues and their wives took turns venting their frustrations over the unwelcome takeover bid by firing darts at pin-up faces of the Nedcor bosses.

The episode is yet another indicator of how the passions stirred by hostile bids are spilling out of boardrooms into the open, even disturbing the get-away-from-it-all tranquility of Pietermaritzburg and Knysna over the holidays.

"Even the tea ladies snapped them up," he said. "It shows just how unwelcome this bid is. I have not met one person in the group who wants it. In the merchant bank, the guys to a man are going to walk if Nedcor gets its way."

Badges bearing the FTG logo are commonplace among staff in Standard Bank branches.

Reports that 11 000 Standard Bank staffers have signed a petition rejecting the Nedcor move were greeted with ironic mirth by a banking insider: "That's a convenient coincidence," he said. "That is about the same number of jobs Nedcor is likely to cut if it wins."

In a statement demonstrating detachment approaching Olympian proportions, Liebenberg said: "It is not for us to comment on the type of entertainment that others provide."

"As a group we are totally focused on ways and means to engage one another in a professional, ethical and businesslike basis in the merger discussions." - Johannesburg

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Stanbic argues need for Competition Commission

By Richard Stovin-Bradford

Johannesburg - Standard Bank Investment Corporation (Stanbic) yesterday gave its opening arguments to the high court in Pretoria in its attempt to have Judge Nico Coetzee rule that Nedcor's hostile bid for it must be cleared by the Competition Commission and not left to the registrar of banks and the finance minister as planned.

The arguments presented by Hiram Slomowitz, Stanbic's senior counsel, highlighted the apparent inadequacy of the recently-enacted Competition Act to deal with mergers between any publicly-regulated businesses, let alone one of the scope envisaged by Nedcor.

An exception clause in the new act, which applies to "all economic activity" in South Africa, is where an act is "subject to or authorised by public regulation".

"It takes little imagination to appreciate that if this is true, the Competition Act becomes emasculated. It is an empty vessel. Parliament, having taken the trouble to so expansively enact (the act) in one sub-paragraph of an exception to the general rule destroyed the general rule itself," Slomowitz said.

Yet, he pointed out, merging the two banking groups would create "by far the biggest bank in the land. It would dominate the whole financial services market".

"A further immediate effect of (the merger) is that Old Mutual would indirectly control the business of Liberty ... The mind reels at Old Mutual's influence in every sphere if it acquires Liberty's business, as it might well do."

As things stand, the registrar of banks and finance minister believe they are the sole arbiters of the fate of Stanbic and, by extension, Liberty Life, its life assurance subsidiary, in the face of Nedcor's hostile takeover bid launched last year with Old Mutual's backing. They would merely "consult" with the Competition Commission.

Stanbic took the view that the proposed regulatory process was "not fair and

Stanbic's lawyer said the registrar's interpretation of the legislation relegated the Commission at best to a very limited consultative role and eliminated the Competition Tribunal, effectively denying any opportunity for wider scrutiny by affected parties.

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BUSINESSDAY

NEWS WORTH KNOWING

Thursday, 24 August 2006

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2006/01/26 12:00:00 AM

THE new Competition Act could perish at the moment of its birth if Nedcor's view on the regulatory process for its hostile bid for Standard Bank Investment Corporation (Stanbic) was upheld, lawyers for Stanbic suggested yesterday.

This was on the first day of hearings on Stanbic's application to the high court to clarify the role of the regulators in judging the bid. Stanbic argues that the bid needs two permissions, from the finance minister and the competition authorities. The competition commission supports this view. Nedcor, the registrar of banks and the finance minister argue that the bid is subject only to approval in terms of the Banks Act.

The problem is a clause in the Competition Act which excludes from its jurisdiction activities which are subject to or authorised by public regulation. Nedcor says its bid is excluded because it is subject to regulation by the minister and the registrar.

However Hiram Slomowitz SC, appearing for Stanbic, argued that Nedcor's broad interpretation of the clause would exclude almost all mergers, since most are subject to takeover regulations in the Companies Act.

Nedcor's proposed merger with Stanbic which will send ripples across all of SA economic life, clearly falls within the purview of the act.

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Resorts as a vehicle to hold offshore interests.

Allegations of bribery against Sol Kerzner, which resulted in him having to spend most of his time offshore, also complicated the structure through the need to set up Sun International Hotels.

The share prices of Sun International Hotels, Sun International SA and Kersaf have all come under pressure. A merger could help unlock some of that value.

ANGLOVAAL Mining has given its clearest signal yet that it wants to sell its shareholding in Venetia diamond mine, announcing earlier in the week that it is in discussions with De Beers, the mines other major shareholder.

Although no further details were provided, it seems discussions are more advanced than the industry realised.

If Avmin does sell, it could net as much as R4bn, although De Beers, which stands to gain broadening its already wide spread of operating assets, seems to be in the stronger bargaining position.

While the Venetia stake provides a strong and steady cash flow for Avmin, there are plenty of ways R4bn could be used. That much cash could mean a healthy dividend (as controlling shareholders, the family of CEO Rick Menell would have a keen interest in this option), although there is a possibility that the transaction would combine cash and shares.

A near certainty is the buyout of the minorities in subsidiary Avgold to consolidate future funding of the gold mining companys Target project.

It is unclear how Industrial and Commercial Holdings, which has a 12,5% stake in 50% of Venetias royalties as its only investment, will respond. It may decide that Venetia is worth keeping while the international diamond market is so strong.



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BUSINESSDAY

NEWS WORTH KNOWING

Thursday, 24 August 2006

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2006/01/28 12:00:00 AM

THE outcome of the court battle over who has the right to regulate Nedcor's hostile bid for Standard Bank Investment Corporation (Stanbic) is of profound importance to banks.

It will establish the regulatory route to be followed in all future bank mergers or takeovers, clarifying whether they must be approved merely by the finance minister in terms of the Banks Act (Nedcor's view) or must have the separate blessings of the minister and the competition authorities (as Stanbic argues).

The court case also has ramifications that go well beyond the banking sector. Lawyers for Stanbic argue that if Nedcor's view of the regulatory issue is upheld, SA's new Competition Act will be fundamentally undermined.

Lawyers for Nedcor counter that if Stanbic's view prevails all other regulators will be compromised.

Few commercial cases are this central to SA's economic life or involve as many lawyers. There were 14 counsel (eight of them senior), plus a slew of attorneys hanging about in the Pretoria High Court this week as the case was argued on behalf of the banking groups and regulators.

It will be up to Judge Nico Coetzee to decide how to reconcile the various pieces of legislation involved.

However, even if Nedcor turns out to be correct in its interpretation of the law, it has to be asked whether that approach is correct from a political standpoint.

Its insistence that the Competition Act does not apply might be seen as an attempt to avoid awkward questions about how the SA market would look were the deal to go ahead.

That may not do much for Nedcor's image, or the popularity of bank mergers in general. Unlike many other corporate deals, those affecting banks are keenly watched by the public. IT WOULD make sense for Kersaf and Sun International SA to rationalise their operations into a simple, cohesive group that would oversee the marketing and management of its international casinos and resorts.

The offer by Kersaf, Caledonia Investments and the Kerzner family interests to acquire all the shares in New York-listed Sun International Hotels they do not already own could be the first step in that direction.

As casinos and major resorts are perpetually hungry for capital, it would make sense for

dominate the SA fuels sector.

Responding to criticism of the Engen deal, Worldwide CEO Phuthuma Nhleko says it is unrealistic to expect black-owned independent oil companies to grow organically to reach this target from such a low base, and few could dispute his logic. Black control was estimated at no more than 5% of the retail fuels market before the latest deal.

However, this does not address the central question of how the 25% target will ever be reached. Governments response that the ball is in the industrys court is less than helpful.

Unless Minerals and Energy Minister Phumzile Mlambo-Ngcuka is planning some dramatic intervention, the domestic oil industry looks likely to remain foreign-dominated and overregulated indefinitely.

Medical manoeuvres

THE medical scheme industry waits with bated breath for clarity on whether or not the Registrar for Medical Schemes and his council will allow Fedsure and Discovery Healths medical schemes on to the market.

Both insurers were stopped in their tracks when the department of health objected strongly to their new products. These are designed to suit the new Medical Schemes Act but nullify some of its effects by including elements which fall under the Long Term Insurance Act.

Discovery and Fedsures actuaries are tinkering with their products before they formally submit them to the Medical Schemes Council for approval. Meanwhile the more traditional medical schemes are watching closely from the sidelines. If the two insurers are allowed to get away with their products, the medical schemes plan to design similarly structured products of their own.

That would cleverly thwart the main aim of the Medical Schemes Act, which is to force schemes to accept the sick and the elderly and provide them with adequate cover at a reasonable price. The department of health has forcefully declared it will fight the new products, even though the insurers believe the Registrar for Medical Schemes gave them the nod.

The issue has rekindled an old debate between the departments of health and finance over who regulates which products in the health market. The two are said to have had some nasty battles over the new medical schemes legislation.

Insurers claim the department of health wanted to kill legitimate insurance business. But the department is determined that the new act should ensure that those who can pay towards health care get coverage, rather than falling back on free, but overburdened, state facilities.



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Bank brawl antics can get shareholders hostile

By Richard Stovin-Bradford

Johannesburg - Last week's courtroom shenanigans between the parties to Nedcor's proposed takeover of Standard Bank Investment Corporation (Stanbic) illustrate that our regulatory and legal framework and even our corporate culture is still far from ready for the sort of hostile - or even agreed - takeovers that are routine in the United Kingdom and United States.

They are two overseas investor nations with a soft spot for our markets, and their investment institutions keep a close eye on corporate activity here. So the way our rules and laws are interpreted and applied in this takeover could signal that we are falling into some bad habits.

We run the risk of losing sight of principles such as that of fair and equal treatment for shareholders that should be at the heart of takeover considerations because we prefer instead to exploit ambiguous or rarely-tested clauses in legislation such as the Banks Act, the Insurance Act and even brand-new legislation like the Competition Act.

Who does what to whom in this bank brawl in the end really ought to be decided by the companies' respective shareholders, after considering the commercial merits of the takeover, and not by a series of interest groups with walk-on parts of greater or lesser importance.

But it's not as simple as that when one bank is trying to create a local banking monolith with dominant market shares in a number of areas and when it and its target are subject to sanctions-era laws designed to keep them under control.

Put simply, Nedcor reckons its takeover plan requires no more than a nod and a wink from the Registrar of Banks and the finance minister in terms of the Banks Act, with a subsidiary nod and wink from the Competition Commission.

Stanbic, on the other hand, is concerned at the wider concentration and banking sector implications of a takeover and believes the commission should scrutinise every aspect of Nedcor's planned takeover.

We believe the judge will quite reasonably opt for a ruling whereby the registrar and the commission must unanimously rule in favour if the takeover is to proceed or, if there is material dissent, the takeover must be blocked.

In last week's court exchanges, the take-over risked becoming more a clash of egos and mini-fiefdoms to determine who should and should not be allowed to have a say in the final decision. Thanks to the conflict between our Banks Act, Insurance Act and brand-new competition legislation, this takeover has disturbed the mother of all hornets' nests.

In the meantime, the shareholders, staff and customers of both banks are not allowed any meaningful say until the judge's ruling is known and the process he decided on has run its course.

An example of how takeover activity might be better operated and policed comes from the UK, where it is regulated by the Panel on Takeovers and Mergers. The operative word is regulated. Regardless of sector, a takeover of a listed company is subject to the City Code on Takeovers and Mergers, which operates as a fair and efficient framework and generally avoids the risk that shareholders' interests can be hijacked by, for example, kicking the debate into the courtroom.

The sooner finality is reached on this matter, the better. Judge Coetzee's decision is due by February 11, but that may only be a staging post in the process. If the Competition Commission is given the chance to check over Nedcor's plans, a new 60-day waiting period starts.

Events since Nedcor was forced to reveal its predatory interest in Stanbic in September last year may sooner or later cause it to lose interest in its prey, but we have heard nothing to suggest its desire to create a superbank has diminished.

But the conclusion of this first round of legal to-ing and fro-ing in might already have provided Nedcor with an elegant get-out clause.

broader company and competition law, and not a raft of conflicting sector-specific laws.

An upshot of this might be a rethink of our various regulatory bodies such as the Financial Services Board coupled with the separation of the banking regulatory function from the Reserve Bank, as happened when the Bank of England handed over its regulatory role to the FSA in 1997.

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The end of the road for banks may turn out to be the beginning

February 7, 2000

By James Lamont

A common refrain these days is that local banks have reached "the end of the road". Nedcor is so much at the end of its hi-tech, top niche road that it needs a merger with Standard Bank Investment Corporation (Stanbic) or acquisitions of law firms to grow.

Likewise, supporters of Nedcor counter vociferously that Stanbic is similarly at the end of its mass-market road under its present management.

With the exception of Viv Bartlett, the former directors of First National Bank prior to the FirstRand merger came to the end of their road some time ago.

Absa, with an earnings forecast this year similar to last year's disappointing performance, has temporarily reached the end of its road.

As for the smaller banks, after last year's liquidity crunch they are all at the end of the road.

"End of the road" is, of course, an overused term from the spin doctor's essential glossary. It tends to surface when a rival wants to put the skids under a target's share price.

But you could be forgiven for thinking that local banks were suffering from a terrible lack of imagination - that is if they were not able to maintain such telltale healthy margins. Others are identifying highways rather than cul-de-sacs for the country's banks.

Last month HSBC, the investment bank, and its strategist Ben Rudd put South Africa at the top of its emerging market equity investment list.

And why not. With inflation at 5 percent, a growth rate of 3,5 percent, low external financing needs and (until very recently) a stable rand, South Africa stands out among emerging markets in an atmosphere thick with the expectation of rising US interest rates.

But more than this, HSBC's report identified the banking sector, something of a laggard in 1999, as its darling.

"It stands out as one of the best quality banking systems in the emerging markets," said the report.

"It stands out as being high growth, high quality and, despite the recent rally, relatively cheap compared to the overall market."

Other favourites were resource stocks with base metal exposure and domestic industrials. Unsurprisingly, the dogs were healthcare and leisure.

Rather more surprising was the report's neutral outlook on the information technology sector, which is the most vulnerable to a fall in the US market.

The good news for local banks was that HSBC forecast a 20 percent return on equity this year, well above an emerging market average of 10,5 percent.

Credit is expected to recover strongly as growth ticks up and corporate investment builds; interest spreads are above emerging market averages; cost-to-income ratios are falling as restructuring and merger activities get under way; and the management of risk exposure has been tight in spite of domestic bankruptcies.

The sparring between Nedcor and Stanbic, while entirely par for the course in a European-style hostile bid, inflicted body blows to a usually unflapped financial sector.

So unfamiliar was the public agitation that Tito Mboweni, the Reserve Bank governor, felt it necessary to wade in at the end of the year and remind the banks of their professional conduct. Investors turned to resource stocks.

HSBC said these worries were overdone and the derating of the sector offered an opportunity to investors.

Its outlook banked on a reduction in non-performing loans, the speedy resolution of the merger battle and an impetus to restructure and improve efficiency.

HSBC did not say it, but much investor appetite hangs on how the regulatory authorities respond to the merger challenge. If they too stand out among their emerging market peers, then the end of the road for local banks might just turn out to be the beginning.

BUSINESSDAY

NEWS WORTH KNOWING

Thursday, 24 August 2006

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1st Ed - NEDCORS BID FOR STANBIC OFF THE HOOK

2000/02/08 12:00:00 AM

**Court decision makes it clear that the finance minister has the last say
 THE new competition watchdogs authority over a broad range of mergers
 has been curbed by yesterdays Pretoria High Court ruling that Nedcors
 hostile bid for Standard Bank Investment Corporation (Stanbic) is exempt
 from the Competition Act.**

Judge Nico Coetzee dismissed Stanbics application to have the deal regulated in terms of both the Banks Act and the Competition Act, making it clear that only the finance minister is entitled to rule on whether Nedcors bid can go ahead. Although the minister must consult the competition authorities, Coetzee said: The minister has the last say. His decision cannot be vetoed by the Competition Commission.

However, the judge upheld Liberty Lifes application for the deal to be regulated in terms of the Long Term Insurance Act.

Stanbic has applied for leave to appeal to the Supreme Court of Appeals in Bloemfontein. Coetzee said he was inclined to grant this but had to hear the other parties. A hearing is scheduled for Thursday.

The judgment hinged on section 3 (1)(d) of the Competition Act which exempts acts subject to public regulation from the ambit of the act. The judges view on the clause, which was extensively debated during the four-day hearing, was that it was clear and should be taken literally.

Public regulation includes national legislation in terms of the act, and the Banks Act is obviously national legislation, Coetzee said. In terms of the Banks Act, bank takeovers are subject to approval by the finance minister. He concluded that the parallel jurisdiction of competition and banking authorities argued for by Stanbic was untenable.

The judgment bears on all future banking mergers. It also indicates insurance industry mergers will not fall under the Competition Act, since the judge said short and long-term insurance regulators count as public regulators. The insurance acts do not oblige them to consult with the competition authorities on mergers, though they do not prohibit this.

The judge ordered Stanbic to pay the costs of three counsel for Nedcor and two counsel each for the finance minister and registrar of banks.

However, he dismissed an application by Nedcor to strike out parts of Stanbics application to the court, and turned down a request by Nedcor to remove Stanbic's board of directors.

Stanbic chairman Conrad Strauss said the bank was not denying shareholders the ultimate opportunity to commit to the deal but the regulatory position must be clarified. Stanbic would like the appeal process to be fasttracked. He repeated the boards objections to an offer which would dilute shareholders earnings by about 8%.

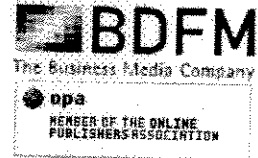
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Court ruling strengthens Nedcor's hand

February 8, 2000

By Richard Stovin-Bradford

Johannesburg - Shares in Nedcor, the smallest of the country's big four banks, rallied yesterday after a high court ruling that its hostile takeover bid for Standard Bank Investment Corporation (Stanbic) should be reviewed by the registrar of banks and the finance minister. Judge Nico Coetzee, whose reputation is that of a criminal law judge, dismissed Stanbic's application yesterday, saying it would defeat the aims of efficient administration if the state performed two parallel investigations into the bid only to discover that one had been vetoed by the other. The court decision marks a significant staging post in Nedcor's bid plan, but Stanbic could still appeal against his decision on Thursday. The bid will not in any case be made to Stanbic's shareholders until Christo Wiese, the registrar, and Trevor Manuel, the finance minister, have reached their own decision.

Richard Laubscher, Nedcor's chief executive, said: "In the coming days, we believe we can clearly demonstrate there'll be benefits for all (Stanbic) stakeholders." But he would not be drawn on the latest level of institutional support for Nedcor's intended bid, or whether his bank would raise its offer ratio.

He voiced concern at the "delaying and frustrating" tactics of Stanbic's board, which has staunchly rejected Nedcor's overtures, saying: "The right to say no belongs to shareholders and not the Stanbic board. If the shareholders say no to the transaction, there is no transaction."

Conrad Strauss, Stanbic's chairman, said in a statement: "It is Stanbic's view that nothing has changed and that Nedcor's hostile bid is not in the interests of Stanbic or Liberty Life stakeholders and has negative consequences for the financial services industry in South Africa."

The market got wind of Coetzee's decision well before it was made public at 11.30am yesterday and Nedcor's shares rose steadily in morning trade. They closed 280c higher at R155, while Stanbic's shares gained 45c to end at R29.

Stanbic last month asked the high court to clarify which authority should rule on Nedcor's

The court finding does not in itself imply an early outcome to Nedcor's bid for Stanbic. But it could be a blow to Liberty Life and threaten its independence if Stanbic's shareholders decide to accept Nedcor's offer.

Old Mutual, Nedcor's controlling shareholder and the largest single shareholder in Stanbic, which in turn controls Liberty Life, could become the sole arbiter of its close rival's fate.

Nedcor's takeover bid may have a degree of desperation

By David Gleason

If it is not one takeover, it is another: pushing the Randfontein and Harmony saga off the front business pages is the return of the Nedcor and Stanbic merger - or hostile takeover, as Stanbic spokesmen describe it.

Actually, not a lot has changed. Ultimately, the decision as to whether or not the bid goes anywhere rests with Nedcor's managers (who may, but probably won't, decide to walk away) and Stanbic's shareholders (if and when they are asked to vote with their wallets).

An essential plank in Stanbic's defence was to question the regulatory process. This was essential, it claimed. Obfuscation, responded Nedcor.

The court's decision was widely second-guessed. When it comes to bank mergers, Christo Wiese, the registrar of banks, decides after consulting with the Competition Commission. His recommendation is sent to the Trevor Manuel, the finance minister, who has the final say before a scheme is put to shareholders.

Stanbic wants to appeal the ruling. If that move is approved today by the Pretoria High Court, it's anyone's guess as to when the appeal will be heard and a ruling delivered - perhaps another six to eight weeks.

These delays raise some important issues.

A senior broking analyst says the risks attached to the benefits Nedcor claims will result from a merger are now very high, and they grow as each day passes.

Nor is he alone in the view that a cash underpin has become an absolute requirement, along with a revision of the ratio offered to about 4,75 shares of Stanbic for every Nedcor share (from the 5,5 previously proposed). "That's probably the minimum," the analyst says.

"This was a clever five-year strategy," says another analyst. "It was central to Nedcor's excellent programme to achieve earnings growth and to pull down its cost to income ratio."

But a five-year plan cannot be applied to a 20-year programme. Nedcor looks suspiciously as though "it can't now grow organically", says the second analyst. "This is why there may be a degree of desperation in Nedcor's bid. Maybe they're now coming to the conclusion that they could have been wrong - which would explain why they're so anxious to deal now."

"It's certainly possible that if Nedcor doesn't act now, it might find itself the subject of a takeover by Stanbic in a few years."

The second factor is tied in with a third. It is that Nedcor's expectations of what it might achieve from the merger, carefully and cleverly estimated though its calculations might have been, have been constructed by men who, it is claimed, have little experience of branch banking. "And it's in branches where mergers take place, not in head offices."

Nor can this element be isolated from the genuine hostility that now appears widespread among Standard employees - a factor acknowledged by Richard Laubscher, Nedcor's chief executive, who expresses considerable disquiet at the extent to which the campaign has been taken.

Mergers are never easy to digest, and the record of success in hostile banking takeovers in recent years is particularly poor. Warfare at branch level would be a recipe for certain disaster.

Of course, and as you would expect, those on the receiving end of Nedcor's unwelcome attentions have a lot to say about what will be the state of the financial sector if the deal is executed.

Stanbic chairman Conrad Strauss does not hesitate to point out that the extent of Mutual's reach over the sector will be pretty comprehensive.

For Laubscher, however, the issue is simple, quite unclouded by the detailed whys and wherefores: "Good governance requires Stanbic's board to make a recommendation to shareholders. After that, it's up to the owners."

And there have certainly been mutterings among stockbrokers that Stanbic's spoiling tactics are denying shareholders the opportunity (and the right?) to decide the issue by making their own choice. "The possibility that, at some stage, there might be a demand for a shareholders meeting shouldn't be discounted," says an observer.

What is plain is that this takeover battle, the largest in South Africa's corporate history, is being watched with unusually keen interest by international investors. If Stanbic does manage to hold off Nedcor it will have bucked a global banking trend towards increasing consolidation.

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NEWS WORTH KNOWING

Thursday, 24 August 2006

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1st Ed - COMPETITION ACT TO CHANGE

2000/02/10 12:00:00 AM

**Erwin says judges interpretation of law in Nedcor decision was extreme
CAPE TOWN - Government is to amend the Competition Act urgently after
the high court judgment earlier this week which exempted Nedcors hostile
bid for Standard Bank Investment Corporation (Stanbic) from adjudication
under the law.**

Trade and Industry Minister Alec Erwin said yesterday that work had already begun on a range of amendments to the act. They were in the form of a discussion document which would go to the cabinet for a decision. Erwin said it was always the intention that mergers and acquisitions should be subject to both the competition law and legislation regulating particular sectors.

His comments came ahead of today's application by Stanbic in the Pretoria High Court for leave to appeal to the Supreme Court of Appeals in Bloemfontein. Judge Nico Coetzee said earlier this week he was inclined to grant leave but should hear the other parties. Nedcor will decide this morning whether to oppose Stanbic's application.

Erwin's comments are in line with those of Alistair Ruiters, the former competition commissioner who is now trade and industry director-general. Ruiters said last year that the competition authorities had jurisdiction over the Nedcor bid, and if they did not, we will change the act.

At issue is the principle of concurrence between the Competition Act and other legislation regulating particular sectors. The high court ruled that Nedcor's bid should be judged by Finance Minister Trevor Manuel in terms of the Banks Act. It found that the Competition Act did not apply because of provisions which exempt acts subject to or authorised by public regulation. The ruling raises the prospect of deals in numerous sectors, such as insurance, telecommunications and liquor retailing, falling outside the ambit of the competition watchdog.

Erwin said government would now have to clarify that section. The amendments would make it clear that concurrence was intended between the Competition Act and other regulatory statutes. Erwin said Coetzee's interpretation was an extreme one which ruled in favour of exclusivity, and companies would use this as a precedent.

Meanwhile, Stanbic was due to file the reasons for its application last night. A Nedcor spokesman said the group was waiting to see these before it made a decision.

Nedcor to fight Stanbic's appeal by saying delays will hurt shareholders

February 10, 2000

By Richard Stovin-Bradford

Johannesburg - Nedcor's hostile bid for Standard Bank Investment Corporation (Stanbic) returns to the courtroom today when Stanbic seeks to appeal Monday's high court ruling that the Banks Act was the principal law governing Nedcor's bid.

Stanbic, dissatisfied with the ruling because it believes the Competition Act should also be applied to the bid, hopes the judge will allow it to take the matter to the court of appeal.

Nedcor let it be known yesterday that it intended to fight today's appeal attempt.

However, in the process of applying for leave to appeal, neither banks may introduce new information to the process.

Sources said preliminary indications from Bloemfontein were that the chances of the court hearing Stanbic's appeal "in the next month or so" were slim and that there was more chance of it being heard in May or August.

On the basis of these indications, Nedcor is expected to take a firm stand at the appeal hearing today and to claim that Stanbic's shareholders were being disadvantaged by the delay caused by the court process.

Jacko Maree, the chief executive of Stanbic, said: "To get the process right may take a few more weeks or months, but Nedcor can't withdraw its offer so shareholders are not being prejudiced in any way by the time delay and also there's no cash offer from Nedcor."

"The critical point is that Nedcor cannot withdraw the offer, so the institutions are not particularly fazed," he said.

The level of support from institutions other than Old Mutual, which controls Nedcor and holds about 21 percent of Stanbic, and the status of the irrevocable undertakings and indications of support given to Nedcor last year, remained a closely guarded secret.

Analysts expect institutions to sit on the fence until the very last stage of the bid process rather than commit themselves irrevocably now, while the timeframe of the process remains uncertain.

Nedcor shares rose 140c to R155,60 and Stanbic shares gained 70c to R29,70 yesterday.

Whiners and spin doctors are drowning out the cool voice of rational debate

Banking Brawl
February 10, 2000

By Richard Stovin-Bradford

Nedcor finally broke its recent radio silence at the start of this week, within minutes of Judge Nico Coetzee's ruling that its hostile takeover bid for Standard Bank Investment Corporation (Stanbic) should be regulated only under the Banks Act and not also under the Competition Act, as Stanbic had hoped.

The Banks Act, which is aimed more at ensuring the banking system does not fall victim to systemic risk and less at regulating takeovers between competing banks, provides for only token consultation on competition issues.

But, inadequate as the regulatory and legal system is in relation to this particular takeover, the country is stuck with it and must run with it. Today's appeal hearing, in which Nedcor will attempt to dash Stanbic's hopes of an appeal, will probably reinforce the feeling that an aggressor can choose whichever framework best suits its case.

Hardly a brilliant advertisement for the regulatory and legal framework, just when Nedcor is trying to rope international sentiment into its bid plans.

Either way, both banking camps already know the sentiments of Christo Wiese, the registrar of banks: he has no objection to the takeover. As yet, there is no clear indication as to how Trevor Manuel, the finance minister, might rule.

But a speedy answer is not guaranteed. After all, it is well known that Manuel has not yet, despite a delay of some 18 months, pronounced publicly on whether CorpCapital's bid to acquire more than 49 percent of Fulcrum Science and Technology Bank (since restyled CorpCapital Bank) may proceed.

Be that as it may, as Nedcor starts its new year bid campaign in earnest, it's useful to pause and take stock of the essence of its arguments as presented to the media earlier this week.

From the Nedcor perspective that may be how it looks, but it cannot seriously have expected a walk in the park. And whining by an aggressor is not going to win the hearts and minds of a board that represents the Who's Who of corporate South Africa and is merely considering the interests of Stanbic shareholders.

Nedcor could, of course, solve its concerns by putting its money where its mouth is, making a direct, knock-out full offer to Stanbic's shareholders, instead of pursuing the Partial Offer and Scheme of Arrangement route, which has probably lost its cost efficient appearance by now.

Quite frankly, in hostile takeovers it is only normal for the target's board to seek to extract the highest possible offer from the aggressor before giving its recommendation on the bid to shareholders.

Strangely - given Nedcor's frustration at Stanbic's board and Nedcor's belief that the right to say no belongs to shareholders and not the board - it wants to apply a different standard in the case of Liberty Life, whose future is also at risk in all this activity.

On Monday Richard Laubscher, Nedcor's chief executive, said to Moneyweb: "Right up front, we actually said we fundamentally believe that the executive in Liberty and the board of Liberty should have the responsibility and the right to determine their own future."

Moments earlier, referring to Stanbic, he said: "The fundamental of the capital market is that shareholders should have the right to decide on an offer."

In the meantime, an impartial onlooker watching the bid confusion would note how, in classic manner, Stanbic has cleverly defended its territory by deploying world-class spin doctors.

One solution that often deflates tensions in hostile bids - other than coming up with the right financial offer - is for the predator to outline how it might share out the management positions in a post-bid scenario. This provides reassurance to clients, shareholders and staff alike.

With Nedcor saying it is still "fundamentally" committed to the merger, Stanbic should be ready to talk personalities and job descriptions if things ever show signs of turning against it.

But as things stand, much more charm needs to be exuded by the Nedcor bid team than even the best spin doctor can convey, if the hearts and minds of Stanbic's staff, shareholders and depositors are to be won.

Nedcor rightly insists that South Africa should not be out of step with the pace of global consolidation in the banking sector. Barely a week goes by without another merger or takeover announced in Europe, the Far East or the Americas.

But those link-ups are never easily achieved and South Africa is not always responsive to a number of global trends.

Nedcor is intent on creating a "national champion" in the banking sector. But this does not necessarily convey the image or the reality of a globally competitive company. It actually conveys the retrograde image of a protectionist, isolated South Africa all over again. No thank you.

There is no hard evidence that Stanbic shareholders perceive they are being put at a disadvantage by their board's defence tactics, as Nedcor speculates. And there is no evidence, despite clumsily planted articles suggesting the contrary, that onlookers overseas are remotely interested in what is going on in this bank brawl.

Fund managers locally are probably secretly glad that, having been caught rather long of Stanbic shares in the third and fourth quarters of last year, someone is at least fighting to help them cover up their poor investment performance.

But Nedcor's plea for a return to rational debate and an evaluation of the merits of a combination of the two banks is worth endorsing, even if the proposed combined bank only makes number 155 in the world ranking.

Post-merger banks often lose their edge

By R van Druten

In the simmering saga surrounding Standard Bank and Nedbank, there has not been much input in the debate from those who are at the coalface of events - the customers.

As someone who has been shifting capital to maximise short-term yield and remain liquid, my experience is that Standard Bank has consistently offered better investment products, which have sometimes meant an edge of up to 2 percent over other banks.

In contrast, I have not ever moved capital to Nedbank as in my opinion they have simply not been competitive in this field of investment.

But one wonders what their approach to short-term interest rates will be in the event of a merger with Standard. This will probably mean another important independent participant disappears from the market.

The trend was similar with the establishment of Absa, where the competition between UBS and Trust Bank prior to the merger of interests always allowed for an edge to shift investments from one to the other. This has all but disappeared.

For the past year at least, Standard has held sway in my own short-term investment portfolio, but already one perceives a tendency where it too is no longer as competitive. The resultant hassle means one should perhaps start thinking of some different form of investment.

R van Druten

A. sfrere

Gauteng

Published on the web by Business

Nedcor blows its IT trumpet

February 16, 2000

By Richard Stovin-Bradford

Johannesburg - Nedcor, the banking group engaged in a hostile takeover bid for its larger rival Standard Bank Investment Corporation (Stanbic), yesterday made its clearest statement yet that it considered itself at the forefront of convergence between information technology (IT) and banking.

Richard Laubscher, the chief executive of Nedcor, told an analysts' presentation that his bank's core business had become more than a traditional role because it now comprised a banking business, an IT capability and a portfolio of IT investments.

Nedcor has a 20,1 percent interest in Dimension Data International, with an option over a further 5 percent. The group also owns 33 percent of Omnilink and 88 percent of NedTel Cellular.

While yesterday's presentation did not cover new ground, it was received by analysts as a sign that Nedcor was anxious to be seen to be pressing ahead with its IT ambitions, while its bid for Stanbic was on hold pending the outcome of a court appeal over who should regulate the takeover.

Laubscher said: "Technology and its convergence with telecommunications and media will change the face of banking in South Africa within the next five years and will bring new entrants into every part of the market, using the latest technology as their entry weapon."

He said the traditional strengths of banks lay in their financial muscle, customer bases and their position of trust but these businesses would need to redefine their means of competition.

"Winners will be found among those that have the market positions as well as the IT and e-commerce capabilities to exploit them."

"Selecting winning technology suppliers takes time but brings significant benefit if the right choice is made, such as our relationships with Microsoft, Cisco and Dimension Data."

Nedcor would seek investment opportunities in the digital information industry consistent with its distribution, content and e-commerce payments strategies.

Nedcor's results for the year to December 31 will be released on February 22.

Nedcor closed down 300c to R141 on the JSE yesterday after 330 400 shares changed hands.

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**1st Ed - NEDCOR TRIES TO REVIVE INTEREST IN BID**

2000/02/16 12:00:00 AM

NEDCOR launched a new charm offensive yesterday aimed at reviving flagging interest in its bid for Standard Bank Investment Corporation.

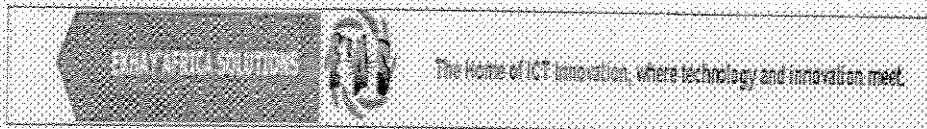
Speaking at the first of a series of functions aimed at wooing fund managers and shareholders, Nedcor CE Richard Laubscher highlighted the banks growing information technology (IT) interests, saying that Nedcors R1bn investment in the industry could soon reach R3bn.

Banks needed free cash flows to exploit IT and a merger with Stanbic would make this possible.

Laubscher will present the results of Nedcor Investment Bank today, followed by those of Nedcor itself next week. It is expected these occasions will be used as opportunities to renew interest in a takeover bid which is hampered by delays and where no official bid has been made four months after the proposed bid was publicised.

There is growing impatience among fund managers at the lack of a formal bid and formal defence, months after Nedcors plans became public. Court proceedings initiated by Stanbic have been seen as a stalling tactic.

I-Net Bridge reported yesterday that lawyers for Stanbic and Nedcor are to ask the chief justice to expedite Stanbics appeal hearing against a high court ruling that the finance minister and not the competition authorities must adjudicate Nedcors hostile bid. However, fund managers have noted that there is nothing to stop Nedcor making its offer to Stanbic shareholders before regulatory authorities have approved a merger. One fund manager said the relative share prices have been vacillating. The share prices at the moment (do) not tell you they are better apart than together, he said.



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1st Ed - HOSTILE BIDS WELCOME SA TO REAL WORLD ?

2000/02/17 12:00:00 AM

Nedcor-Stanbic battle shows the era of gentility is over and the day of the corporate raider has arrived

SA's largest takeover battle is far from over. It is an interesting exercise to watch, but one which is really just a parody of other hostile bids around the world.

Nedcor and Standard Bank Investment Corporation (Stanbic) are preparing their corporate finance, legal and public relations troops for the next battle in what has become a prolonged and increasingly hostile takeover war.

Meanwhile, Vodafone and Mannesmann have ceased fire, with the latter crumbling to the sheer power of the Vodafone bid.

National Westminster Bank is about to surrender to Royal Bank of Scotlands prolonged attack, described by a UK investment banker as about as hostile you can get without going up and punching the other side in the face.

Both Nedcor and Stanbic have clearly studied these battles and are following the process to the letter. The outcome, however, is by no means predictable. The history of hostile takeovers worldwide shows that some wars are won and some are lost.

SA, of course, has a lot to learn from international trends as it is a newcomer to many global commercial practices.

This is partly due to apartheid era isolation, where pariah companies retreated to a laager, negotiating deals on a buddy-buddy system on the golf course or at the Rand Club.

This gentility, accompanied by a long-term view of business, gave way to the corporate raider and the short-term profit motive, which often worry the management of takeover targets, who envisage an asset strip.

Companies most at risk to hostile bids are the increasing number without tightly sealed control structures and those that are underperforming.

SA has experienced a few hostile bids, varying in their success, and picking up in frequency over the past year. The Tongaat-Hulett merger in the 1960s was hostile, as was the unsuccessful bid by Investec for BoE in 1989. More recently, African Life made an unfriendly bid for Norwich, which was eventually sold to Fedsure.

Lonrho Africa was the subject of a takeover bid and is now disposing of assets while AM Moolla spent large amounts of management resources fending off a bid by the Coastal Group.

Reunert was the subject of two unsuccessful bids: one from Brait and one from Altron.

Nedcor's bid for Stanbic is the highest profile hostile bid to date and it is expected that

sound on paper, hostile bids are actually a sign of market maturity.

South Africans may be surprised to learn that France, Germany and Italy were also full of cross-shareholdings that created inefficiency in their markets. These countries are all experiencing a rapid increase in hostile takeovers.

The Vodafone-Mannesmann bid, which is the first major hostile bid in Germany, was met with an interesting response by the German investment community. There was a strong feeling that shareholders should make the final decision because Germany is an open capital market and takeovers attract capital and generate growth.

If one creates a fortress, on the other hand, one may deflect disruption, but there is less investment and growth.

Most takeover bids are still executed through a friendly offer, followed by constructive negotiation. It is usually only when these friendly attempts fail that a bid becomes hostile. A bid can be considered to have turned hostile when management opposes the deal and then shareholders are approached directly to decide for themselves.

Management may then try to stall the bid until the bidder gets frustrated or circumstances improve for the company, thus thwarting the deal. Often legal actions relating to regulators are used to frustrate and delay the bid.

Another combat measure is to boost results to impress the market.

While stalling for time, the target company will usually try to strengthen its standalone case and convince investors of its own prospects, says one adviser. These can include a cost-cutting programme, restructuring and replacement of key executives. The company may approach a preferred white knight to make a bid.

Stalling tactics sometimes backfire as they irk institutions and other shareholders. It is not good news for a company to spend years in the courts. Shareholders get upset because they are prevented from making up their own minds; management is often not focusing on the business but on the takeover war.

After the bid turns hostile there is often a phoney war while the target company tries to get the best terms for shareholders.

Directors must be seen to act only in the best interests of shareholders, and signs of personal or other agendas could lead to shareholder pressure or legal action.

The more drawn out the bid, the more likely it is that key executives will leave.

Hostile bids will be an increasingly frequent feature of corporate activity in SA. While they are a sign that SA business is moving out of its insular focus, they also raise questions about the motives of some corporate raiders, who may have power, rather than shareholder interests, at heart.

Have the short-term profit motive and the corporate raiders ego superseded the long-term thinking of the responsible executive whose main aim is to grow the business over time?

Hostile bids also indicate that SA has hit the big time.

Ernst & Young corporate finance partner Dave Thayser says that such takeovers are a sign we are playing in the real world.

They are also a healthy wake-up call to management complacently sitting on assets and not being efficient. These managers may also not necessarily have been working for shareholders interests.

His comments could easily apply to Reunert, until recently a sleepy electronics and electrical engineering company.

A hostile offer forced the company to improve its efficiencies, investor relations and, hopefully, its ability to consistently deliver earnings growth. If not, there are wider implications.

Absa and FNB cash in on Nedcor-Stanbic merger brawl

By Peter de Ionno

Johannesburg - Absa and First National Bank are cashing in on the Nedcor-Stanbic merger brawl and gearing up to recruit customers who have been left disenchanted and uncertain by the corporate crossfire.

FNB made the first move at the weekend with an advertisement pointedly aimed at Nedcor and Stanbic customers.

Derek Carstens, FNB's newly appointed director of brands, said it was clear that the management and staff of Nedcor and Stanbic were preoccupied with their own issues and failing to focus on customers.

"We believe that this creates an opportunity for us," said Frans du Toit, the financial director of Absa.

Du Toit said the experience of merging four banks under the Absa banner had cost the bank "hundreds and perhaps thousands of customers who had moved to other banks".

"This kind of merger creates instability and that affects customer service and relationships - that is the easiest way to lose a customer. Both Nedbank and Standard are in a state of confusion. You get the management and the staff focused on their personal concerns and the future of their organisation and the customer service deteriorates," he said.

Du Toit warned that the defections would continue, like the aftershocks from an earthquake, for up to a year after any merger was resolved. "It would be naive not to expect us to capitalise on a situation like this."

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1st Ed - STANBIC TAKES TRANSNET BOSS AND STALS ON BOARD *

2000/02/22 12:00:00 AM

STANDARD Bank Investment Corporation (Stanbic), currently involved in a hostile take-over bid by smaller rival Nedcor, said yesterday it had appointed Transnet boss Saki Macozoma as its joint deputy chairman from March 1.

Former Reserve Bank Governor Chris Stals would also join the board with effect from March 1, Stanbic said. Both positions are nonexecutive.

Macozoma said: The reason why I have accepted the position is that I believe in the future of the bank standing alone. The future of the Standard Bank is bright. The bank is profitable and growing.

Stals said he was not in a position to make a comment on the future of Stanbic. I was invited to join and I have decided to accept. My appointment has got nothing to do with a possible take-over. It should not be linked to the hostile bid.

The appeal court will rule on March 23 and 24 on which regulatory authority will adjudicate on Nedcor's take-over bid for Stanbic. Stanbic has so far rejected Nedcor's bid. Macozoma, who was appointed to the Stanbic board in October 1998, becomes joint deputy chairman with Derek Cooper. He is also co-chairman of the Business Trust.

Macozoma was head of the ANC's media liaison unit from 1990 until 1992. He was appointed SA Breweries business development manager in 1993 and in 1994 became an MP. He was appointed MD of Transnet in 1996.

Stals joined the Reserve Bank in 1955, and was appointed deputy governor in April 1976. In September 1985 Stals was appointed director-general, finance department and in May 1989 became special adviser to the minister of finance. Stals became governor of the Reserve Bank in August 1989, a position he held until August 7 1999.

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**1st Ed - BID FOR STANBIC NOT SMART THING**

2000/03/01 12:00:00 AM

WINDHOEK Nedcor's hostile takeover bid for Standard Bank Investment Corporation (Stanbic) will place Namibia's banking industry in a difficult situation, incoming MD of Standard Bank Namibia Owen Tidbury says.

He says Standard Bank Namibia and Commercial Bank of Namibia will face a challenging, though interesting predicament, if Nedcor's bid turns out to be successful. But Standard Bank Namibia has yet to consider the issue intensely.

We have not spent a lot of time thinking about something which we do not think is going to happen, he said.

I cannot predict how the situation will be resolved, he said, but that the bid was not a very smart thing to do since the executive management of Stanbic will be alienated if Nedcor succeeds with the move.

Citing recent history of global banking mergers, he said only true mergers where there is a meeting of minds between the banks, and where synergy which would work together is present could be successful.

It is not the same with the Nedcor bid, since there is no meeting of minds, he said. Tidbury referred to Stanbic's statement on the negative consequences that Nedcor's hostile takeover would have in SA. The statement said it was impossible to support a bid that would permanently remove at least 10000 jobs in an economy where job creation is a top priority.

A large and permanent loss of jobs in a generally robust industry is unacceptable and has to be contrasted to Stanbic's stand-alone position where job reduction is estimated at about 1000 per annum over the three years, Stanbic said.

Phukubje Pierce Masithela Attorneys

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2000/03/16 12:00:00 AM

Groups board still convinced that Nedcor's hostile takeover bid will destroy value

INTERNATIONAL and merchant banking operations helped Standard Bank Investment Corporation (Stanbic) increase adjusted headline earnings by 40% to R2,89bn (R2,06) for the year to December 1999.

This translates into a 27% advance in adjusted headline earnings a share to 226,5c (177,8c), in line with market expectations.

Attributable earnings jumped 51% to R3,09bn, substantially more than any other bank in SA, and a lot more than the bank (Nedcor) that is bidding for us, Stanbic CE Jacko Maree said.

Stanbic's performance held no surprises and was in line with the forecast the group gave in November last year in its defence against the Nedcor takeover bid.

Shares in Stanbic slipped yesterday despite the strong rise in headline earnings, but in line with the sectors decline.

Stanbic was 55c or about 2% softer at R24,95 in midafternoon trade and closed 1,96% down at R25, while the banking sector shed 1,36%.

The groups year-end results released yesterday were the first since it took control of the Liberty Life group.

Adjusted headline earnings for banking operations improved by 35% to R2,4bn.

Domestic bankings earnings declined 1% , due mainly to high levels of debt provisioning in retail and commercial banking.

In contrast, international operations enjoyed strong trading conditions and achieved a significant turnaround to deliver headline earnings of R455m after losses last year, with 94% of the Russian provisions of the previous year recovered.

Earnings from Stanbic Africa were 43% higher and Standard Corporate & Merchant Bank (SCMB) achieved record earnings with profit 19% higher.

Net interest income, before provision for credit losses, increased 13% to R6,7bn.

Noninterest income grew a robust 22% to R6,4bn, improving from the previous years 47% to 49% of total income. Stanbic managed to follow a downward path in its cost-to-income ratio.

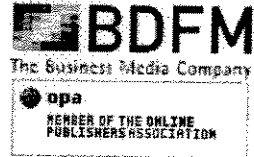
It fell to 61,4% from 62,3% the previous year and represented good progress towards the

containment. An encouraging start has been made to the year and, at this early stage, indications are that this earnings target should be within our reach. Maree said the Stanbic board still believed that Nedcor's hostile take-over bid was not in the interests of shareholders and would destroy value.



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2000/03/17 12:00:00 AM

Stanbic results as expected, even before Nedcor offer emerged, says analyst
ANALYSTS polled after the release of Standard Bank Investment Corporations (Stanbics) year-end results yesterday agreed that the results left Stanbic neither more nor less vulnerable to Nedcor's hostile bid.

Stanbic reported a 27% increase in adjusted headline earnings a share to 226,5c for the full year to December 31.

An analyst said the recent results set the platform for Stanbics stand-alone strategy, but they will need to deliver to justify that cause.

The proposed Nedcor merger has refocused many lethargic divisions within the bank. We expect the focus to be firmly on improving return on equity and the cost-to-income ratio.

Management has set an earnings-a-share target for 2000 and 2001 of 285c and 350c respectively.

We expect that these need to be exceeded, otherwise shareholders will definitely demand a change of management and/or takeover, he said.

Another analyst said the results were as expected, even before merger intentions emerged.

In the next few months Stanbic investors would decide on either allowing Stanbics management team to deliver or contracting Nedcor to do it for them.

Another analyst said the fact the results were exactly as promised probably gave investors some faith that management could deliver.

However the promise was made at the end of last November, last year so and management would be expected to have a handle on its pending results.

Stanbics compound growth rate was not overly impressive as this good result came off severely depressed 1998 results, which delivered a growth rate of only 8%.

Given Stanbics recent track record on bad debts and lending, I do not believe investors will see much less risk in their defence than in the merger proposal, the analyst said.

Stanbic management has committed to increasing headline earnings a share 26% (285c) in the present financial year.

This places the share on a forward price-earnings ratio of 8,8 times, which is undemanding, a banking analyst at brokerage Barnard Jacobs Mellet said.

We believe there is still a long road ahead in resolving the Nedcor-Stanbic hostile bid.

Liberty has yet to raise its defences at having Old Mutual decide its fate if the Nedcor bid

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2000/03/17 12:00:00 AM

THE bottom-line growth of 27% was no surprise, but Standard Bank Investment Corporation (Stanbic) provided some information gems with its results this week.

First, it revealed that its defence against Nedcor's hostile bid has cost it R54m so far. One suspects Nedcor has spent more but the group has yet to go public on its costs. No doubt both will spend a few more millions as the saga continues in coming months.

Second, Stanbic disclosed cost-to-income ratios for each of its businesses for the first time. There is an agenda, of course, which is to counter the Nedcor argument that it is the leanest and meanest and its management should therefore be put to work at Stanbic. But Stanbic's numbers do tend to support its argument that it is a very different business from Nedcor and the cost-to-income ratios should not be compared simplistically.

Nedcor's cost ratio is now below 52%. Stanbic's has come down to 61,4% and its target this year is 60%. But where Nedcor has targeted the higher end of the banking market, Stanbic's focus is broader 90% of its customers earn less than R5000 a month, a recent survey found. Mass market retail banking is expensive. Even Nedcor admits that the cost ratio in its retail banking operations is more than 60%. At Stanbic, the cost ratio of the retail operations is declining but is still nearly 69%. Also expensive is its large London operation, with a cost-to-income ratio of 67%, down from 75% in the previous year. By contrast, the ratio in commercial banking is 44% and in Standard Corporate & Merchant Bank, just under 60%.

Whatever the outcome of the Nedcor bid, it has prompted the disclosure of all sorts of useful information. And, as Stanbic is the first to admit, the bid has done much to energise the larger group.

Fashion and sport

WITH hindsight, it looks lucky for retail group Foschini that its bid to buy Totalsports some time ago failed. Now it is to pick up the 100-store sports retail chain for R75m. This is much cheaper than the price it would have paid when it first showed interest, as

Totalsports has fallen on hard times.

In addition, when the first bid failed, Foschini started its own sports chain, Sport Scene, which was very successful and grew to 39 stores, becoming Totalsports major competitor. As a result, Foschini already has extensive experience and expertise in this sector, and it will be able to extend its own management and information technology structures to the

With SAs good weather and its sports-crazy people, sporty clothes for sport or leisure are big business.

Unexpected benefactor

HARMONYs shareholders are smiling. Although the gold companys issued share capital should increase once its offer for Randfontein is completed, so reducing earnings per share, Harmony is the flavour of the month in the gold sector.

And the Harmony share, which is currently trading in the mid-R40 range, has received unexpected help from one of its bigger competitors.

Analysts are divided on whether Harmony or rival Gold Fields is the better gold share. But the Gold Fields share price is languishing because about 17% of the groups shares are expected to hit the market shortly.

The reason for the potential overhang is that Gencor has said it will unbundle its holding in the gold company while Gold Fields of SA is expected to announce the unbundling of some of its holdings soon.

With share buybacks coming into fashion locally, it will be interesting to see whether Gold Fields will consider the option. The company has close to R400m in cash to do so.

Placing the shares could be another option. The last time the company issued paper, for the Driefontein deal, it took only two months for the market to digest the extra shares. That was at a time when Gold Fields was less healthy operationally than it is now and the balance sheet was not as strong. That suggests the overhang may not dampen the share price for long.

Health concerns

WITH the health department said to be sticking to its tough line on health-care funding, the market continues to see Fedsures approach to the issue as high risk. The groups share price has suffered accordingly, despite a satisfactory set of year-end earnings numbers.

Like Discovery Health, Fedsure was marketing a health-care funding product that combined a conventional medical scheme with health insurance. Both were told by the health department to stop selling these products at the end of last year. Unlike Discovery, which came up instead with a product complying with the new Medical Schemes Act,

Fedsure continued to sell its combined product while it waited for clarity on the demarcation dispute between health and insurance regulators on the issue.

In line with the new act, the health department wants to stop funding schemes that risk-rate clients according to age, state of health and so on and that price premiums differentially on this basis. This could affect all the top-up type health insurance products marketed by the industry, not just those doing the work of medical aids.

Interestingly, Liberty Life, which had fallen behind competitors on the health front, is adopting a cautious stance. Though it wants to expand its health insurance activities, the group has not committed substantial resources to these given legislative uncertainty.

Liberty says it will, if necessary, exit health insurance.

If the demarcation dispute goes against the industry, more insurers could go this route which would be disastrous for more affluent clients who are relying on top-up products to ensure they have access to high-class health care.

Meanwhile, Fedsure has taken on the regulators on the industrys behalf. In the short term much is to be gained. But if the dispute goes against it, Fedsure could lose out in the longer term as it finds itself having to re-quote all its clients on a new, compliant health scheme.

That could open the way for competitors to walk in and grab some of the market share

competence, they argue.

The appellants reject the high court conclusion that dual regulation would offend the notion of good and effective administration, arguing the regulators have complementary, not competing, roles.

The finance ministers lawyers will argue that even if the words which regulates competition are inserted in 3(1)(d), the Nedcor deal still does not fall under the competition authorities jurisdiction because the Banks Act does require the banking regulators to scrutinise competition issues. It requires the minister to consult the competition commission before he makes his decision on a banking merger. He has to take its views seriously, though does not necessarily have to agree.

Lawyers for the minister and registrar will argue that banking is a special industry, given its centrality in the economy, and the law intends that it should have a special kind of regulation.

Nedcor announced its intention to bid for 50,1% of the rival banking group in November, making this conditional on approval only from the registrar of banks and the finance minister. This was based on its belief that the deal did not need clearance from the competition authorities. If the three Bloemfontein judges uphold Nedcor's view, the bid could be launched soon.

If, however, the bid must go through the full process under the Competition Act, the regulatory process could take another two months or more. If the bid succeeded, Nedcor might be in control of Stanbic by about August, almost a year after its initial friendly approach.



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Thursday, 24 August 2006

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**1ST ED - SEMANTICS TO TAKE CENTRE STAGE IN TAKEOVER
TUSSELE - ***

2000/03/20 12:00:00 AM

WHEN I use a word, Humpty Dumpty said in a rather scornful tone, it means just what I choose it to mean neither more nor less.

The question is, said Alice, whether you CAN make words mean so many different things.

The question is, said Humpty Dumpty, which is to be master that's all.

Humpty's definition of the issue in Lewis Carroll's *Through the Looking Glass* applies to many of the cases that come before the Supreme Court of Appeals in Bloemfontein when the meaning of words is debated.

However, few can have been watched by as many stakeholders as the triple appeal by Standard Bank Investment Corporation (Stanbic), Liberty Life and the Competition Commission which will be heard in Bloemfontein on Thursday and Friday.

The three are appealing against last month's judgment in the Pretoria High Court, which holds that Nedcor's hostile bid for Stanbic is exempt from the Competition Act and is subject to the Banks Act only.

Nedcor, the registrar of banks and the finance minister are opposing the triple appeal several other respondents cited in the court papers, including the trade and industry minister, have chosen not to respond.

The case will determine how SA's largest bank takeover bid is regulated, as well as how future mergers in the banking sector will be judged. It is also a crucial test of the jurisdiction of SA's new competition watchdog.

The central issue is the meaning of the words in section 3(1)(d) of the Competition Act, which excludes from its ambit acts subject to or authorised by public regulation.

Nedcor's lawyers will argue the section's ordinary grammatical meaning should prevail in which case, since the Banks Act makes the finance minister and registrar of banks the regulators the Competition Act does not apply.

Stanbic, Liberty and the commission's lawyers argue that the preamble of the Competition Act makes it clear that the legislation is intended to apply broadly. A literal interpretation of 3(1)(d) would emasculate the act, because almost any activity is subject to some form of public regulation. This could not have been the legislators' intention.

In another case last week, the high court upheld SA Dried Fruit Holdings' demand to be exempted from the Competition Act because it is regulated under the Marketing of Agricultural Products Act. The case bore out fears that the literal interpretation of 3(1)(d)

Court dismisses Stanbic's application

April 1, 2000

By Richard StovinBradford

Johannesburg - The court of appeal in Bloemfontein yesterday turfed out Standard Bank Investment Corporation's (Stanbic) appeal against an earlier high court ruling that the Banks Act was the main applicable law in rival Nedcor's proposed hostile bid for it. Stanbic had hoped the court would accept that the recently enacted Competition Act, which conflicts with the provisions of the Banks Act, should also be applied to Nedcor's plans. The fourtoone decision by the judges meant the takeover would be regulated by Christo Wiese, the registrar of banks, and Trevor Manuel, the finance minister, in terms of the Banks Act, which is more concerned with systemic risk than with takeovers and competition issues.

The appeal court said: "Standard Bank should await the decision of the minister, and if it be dissatisfied with it and believes that it has a valid complaint as to the process by which he reached his decision, that will be the time to take action."

The decision paved the way for Nedcor to proceed with its intended offer for Stanbic. But analysts were divided as to whether a knockout bid valuing Stanbic's shares at even well above R30 a share would succeed.

Mutual without any competition issues being considered.

It said: "The bid ... has been deliberately structured to allow the Old Mutual group to achieve control of Stanbic and Liberty with support from only a minority of Stanbic shareholders."

Stanbic shares motored ahead on the decision, initially leaping 5,7 percent to R28 as investors positioned themselves for the next round of the takeover tussle. They closed at R27, up 50c. Nedcor joined in the advance, but then slid 400c to R133,20.

Nedcor last year proposed a partial offer comprising a share swap on the basis of one Nedcor share for every 5,5 Stanbic shares. On that ratio, Stanbic shareholders were being offered R133,20 for R148,50 worth of their Stanbic shares.

Stanbic said it was pleased the regulatory process had been clarified but reiterated its view that Nedcor's takeover plan was "oppressive to independent shareholders".

"It is Stanbic's intention to cooperate fully with the regulators in order to determine speedily whether or not Nedcor's hostile bid may proceed," the bank said.

Nedcor welcomed the decision.

Richard Laubscher, the chief executive, said the pace of banking consolidation globally had accelerated since his bank announced its proposed takeover, noting South Africa was not immune and that the price of ignoring global trends could be devastating for the local financial services industry.

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**NEDCOR BID NEEDS ONLY MINISTERS OK**

2000/04/03 12:00:00 AM

**Pricing is becoming an issue as Stanbics offering improves
IF REGULATORS approve Nedcors hostile bid for Standard Bank
Investment Corporation (Stanbic), Nedcor would go back to talk to Stanbic
shareholders before it launched its formal bid.**

The Supreme Court of Appeals in Bloemfontein ruled on Friday that the deal did not need parallel clearance from banking and competition regulators, requiring the approval of only the finance minister in terms of the Banks Act.

Registrar of banks Christo Wiese is expected to complete his work on Nedcors application soon. Wieses department falls under the Reserve Bank, whose deputy governor Gill Marcus indicated on Friday that the Bank would consult the competition commission and other regulators before it submitted its recommendations to Finance Minister Trevor Manuel. A source close to Nedcor said most Stanbic shareholders still favoured the merger, but that price was an issue. Whether Nedcor would be prepared to review this would depend on circumstances, the source said.

Stanbic CE Jacko Maree said that his group planned to impress on the banking regulators and the Securities Regulation Panel that Nedcors partial offer for Stanbic was a mess and unfair to shareholders.

Nedcor would end up with less than 100% of Stanbic, and could then only achieve rationalisation benefits through some form of oppression of shareholders. Nedcor will have to offer a high enough price to get to full ownership instead of trying to do it on the cheap, Maree said.

Securities panel director Richard Connellan has said the Banks Act blocks the panels jurisdiction over the deal until the minister has approved it.

Nedcor CE Richard Laubscher welcomed the appeal court decision and regretted that it had taken so long. The pace of banking consolidation had increased around the world since Nedcors proposal, he said.

The price of ignoring these global trends could be devastating for our financial services industry, Laubscher said.

Though Stanbic has lost its case in the appeal court, analysts say it has bought itself valuable time.

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**1st Ed - THE BOTTOM LINE - BANK REGULATORS MIGHT ASK:
HOW BIG IS TOO BIG FOR SA?**

2000/04/07 12:00:00 AM

NOW that the appeal court has clarified who really is going to judge Nedcor's hostile bid for Standard Bank Investment Corporation (Stanbic), we are about to discover what SAs policy on big bank mergers is.

Competition considerations will come second to the prudential issues that come first for the banking regulators. But the decision is still a difficult one, given that SAs banking sector is already highly concentrated. The big four account for about 70% of total banking assets. A merged NedStan would have an overall market share of 35%, rising to 50% or more in a couple of market segments.

Nedcor argues the banking sector is consolidating worldwide and SA cannot be left behind. Many foreign and local investors back that argument. And after the liquidity crunch many small banks faced last year, some banking regulators may like the idea of a big, strong, well-capitalised NedStan.

But will the proposed mega-bank be too big and strong for South Africans comfort? In most developed countries, banking regulators are careful to ensure no institution is so large that it has the potential to put the system, and ultimately taxpayers, at risk. Stanbic adviser JP Morgan points out that in the US no one bank is allowed to hold more than 10% of total banking deposits. In the UK and continental Europe, the rule of thumb is a maximum 25% of deposits can be in the hands of a single institution.

NedStan would be way over those numbers. That would be cause for careful investigation by most competition authorities. But it raises prudential questions too. Even SAs banking regulators might think twice about this one.

Pasta and unit trusts

NOW you can buy pasta and pesto, a twinset and pearls, as well as your unit trusts all in the same place. Retailer Woolworths is rolling out its unit trusts nationally after a pilot project in Western Cape.

Analysts remain highly sceptical of the viability of a retailer selling unit trusts. Woolworths appears to be emulating the UK example, and would do well to take note of the difficulties Marks & Spencer is experiencing in gaining the confidence of the investment community. In this era of focusing on core business, it simply does not make sense for a retailer to make a detour into financial services. But the company says the issue of business focus should not be a problem, because Nedcor Investment Bank is responsible for asset management.

09 Apr 2000

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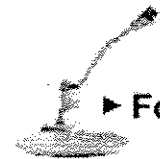
THE hostile bid by Nedcor for Stanbic is likely to proceed at a faster pace now that the courts have declared that the Competition Commission is not the primary regulator in the deal.

Both sides have embarked on an energetic campaign to convince regulators, shareholders and the public of the merits of their positions.

Nedcor has argued that the merger will be in the best interests of both banks' staff, customers and shareholders, and the nation at large. This is refuted by Niall Carroll of Deutsche Bank Securities, which together with JP Morgan is advising Standard Bank in its defence against Nedcor's bid.

Carroll says the shareholder support claimed by Nedcor is dwindling with several irrevocable letters of support from shareholders now lapsed. A case in point is Gencor, which is unbundling its 2.1% stake in Stanbic to shareholders. "If there's overwhelming support for the merger as claimed by Nedcor, then why has Nedcor delayed announcing a full bid?" asks Carroll.

In reply, Nedcor has said that it will not launch the bid until regulatory clearance has been obtained. That Standard has twice failed to have the Competition



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worked in its favour. Experience elsewhere shows that drawn-out hostile bids often benefit the target company.

Carroll says the merged bank would have more than half the national bank card, cheque account and transmission account markets. "These are levels of market share which ought to worry the regulators."

Nedcor believes that with the Minister of Finance and Registrar of Banks verified as the primary regulators, the focus of their analysis will be more on systemic risk than market concentration.

Head of corporate finance at Nedcor Investment Bank, Rob Shuter, says Nedcor's concept of a strong regional champion is likely to be well received in a market that has seen its fair share of troubled banks in the past.

Old Mutual, Nedcor's parent and now a UK company, would have effective control of 45% of the market capitalisation of the banking sector and life assurance sectors and, because Standard controls Liberty, would be able to control the destiny of a major life competitor. Nedcor says it would dispose of Liberty on implementation of the merger.

"Nedcor's basic strategy for success has focused on the upper end of the market and has involved shedding lower end customers to improve profitability per customer account," adds Carroll.

"Standard has close to threemillion E-Plan customers, or 46% of the mass market, a network which has been developed at great cost."

Shuter replies that Nedcor has been highly effective in implementing its lower market strategy through People's

It is all very well to sell unit trusts to these customers when times are good, like over last years Christmas shopping period. But what happens when times are bad? Will customers who are losing out on their investments be inclined to buy the twinset and pearls from Woolies? Or will they be so upset that they take their custom elsewhere?

From a marketing point of view, it is a leap of faith for Woolworths to use its retail brand to market financial services. The initiative could prove to be a costly mistake for a company that can ill afford a wrong move.

Survs inside track

SEKUNJALO CE Iqbal Surv may have helped thwart a bid for LeisureNet by refusing to accept what he thinks is a low offer of between 400c and 500c a share.

But some analysts are asking what planet he is on. As a significant (18%) investor in LeisureNet, he may believe there is much upside potential. But he will find it difficult convincing anyone that it is worth very much more than the current 218c share price, never mind the R10 he has in mind.

He bases his argument on the significant growth LeisureNet is expecting offshore, where it is doubling operations, as well as its rating relative to fitness companies listed elsewhere. As part of a consortium which represents an even more significant portion of LeisureNet than Sekunjalo's 18% holding, Surv may hold some sway. But will shareholders be happy if he keeps saying no to offers substantially above market price?

The LeisureNet share had a steady climb to 820c by June 1998 when the markets were rushing ahead, but came down to 225c by September that year. The share did spike up again, but has spent the last year dropping from 440c to the 210c it was trading at before news of a possible buyer saw it gain some momentum.

Meanwhile, LeisureNet management has confirmed that its strategy does need some clarification. Maybe they will tell shareholders what Surv already knows.

Eskoms red alert

THERE is some scepticism about governments plan to introduce competition into SAs power market without giving the private sector immediate access to the industry.

The question is whether breaking up Eskom, but allowing its effective monopoly to continue in the medium term, will result in lower prices and better service. Many analysts argue that private participation is a prerequisite for vigorous market competition. Opening the market to independent power producers and private distributors will give a wake-up call to existing players, they reason.

This argument certainly holds sway in SAs distribution sector, where electricity users are subjected to power cuts, problems with billing systems and a wide disparity in tariffs charged by different local councils. A reshape of this sector is under way, which will see Eskoms distribution function merged with local authorities to form regional electricity distributors. This may improve the position of faltering municipalities and will help sort out billing and tariff issues, but is unlikely to result in much-needed competition.

Eskoms generation and transmission systems are world-class operations, driving the utility's ability to remain one of the worlds lowest-cost power producers.

The concern is that breaking up the generation sector overnight will prejudice the strengths of the power supply industry. Government plans to introduce competition systematically, first separating Eskoms power stations into independent competing companies with private sector participation a future possibility. A key issue is how to handle independent power producers, which have been knocking at SAs door for years. A regulatory framework,

Nedcor calms top Stanbic staff's worries

By Edward West

Standard Bank Investment Corporation (Stanbic) was forcing its senior management to 'walk the plank' by asserting that employees would jump ship in the event of a merger between Standard Bank and Nedcor, Richard Laubscher, the chief executive at Nedcor, said on Friday.

In an address to the Fleming Martin financial sector conference in Cape Town, Laubscher also said that the common perception that 10 000 jobs would be lost through proposed Nedcor/Stanbic merger was incorrect.

If one took into account the fact that both banks had an average natural attrition rate of 14,6 percent of all employees a year, about 20 000 employees would leave the banks over the three-year business plan of the merger - despite the fact that the business plan envisaged there to be 10 000 fewer jobs available.

"The merged entity will be a net hirer of people over three years - and everywhere else in the world where bank consolidation has taken place, competitor banks, keen to expand their franchises, have picked up the staff who lost jobs," he said.

On a stand-alone basis, Stanbic would have to reduce its staff by about 5 500 anyway, while Nedcor would have to reduce its staff by about 1 500, he said.

Jacko Maree, Stanbic's chief executive, said earlier this week that many senior personnel would leave the bank if it merged, particularly at Standard Corporate and Merchant Bank (SCMB) and at Standard's London operations. But Laubscher countered that a more objective view should have been taken by Stanbic, as there was already a skills shortage in South Africa.

The operations of Nedcor's merchant banking operation, Nedcor Investment Bank, and SCMB were complementary, and a consensual approach, based on successful and incentive-based models used at other big banking mergers around the world, would be used to bring the two staff complements together. In addition, "intriguing discussions" were under way to bring a large overseas partner into the merchant and investment banking business.

"With a global player in place ... we have a real hot dogger ... I find it difficult to believe the SCMB people will not understand the benefits of this," he said, adding it was a tragedy the bidding process had polarised staff to the extent that it had. But Nedcor planned to "substantially incentivise staff" and it had designed a structure which would provide for "very attractive" positions and packages for Standard's high profile executives.

Turning to shareholder issues, he said shareholders had the right to at least consider Nedcor's bid, and it was not the job of a board of executives to create a multitude of obstacles to prevent shareholders from exercising this option.

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**NEDCOR CE IS CRITICAL OF STANBIC'S TACTICS**

2000/04/17 12:00:00 AM

CAPE TOWN - Nedcor management was fully cognisant that it would put the banking sector into play following Nedcor's hostile bid for rival Standard Bank Investment Corporation (Stanbic), Nedcor CE Richard Laubscher said on Friday.

Speaking at a Fleming Martin conference on the financial sector, he said he believed the structure of intertwined ownership was a legacy situation which was changing. If you are a sector player now, in all likelihood there will be a big wedding and do you want to stay as one of the bridesmaids? he said. That is a risky decision. Since September when Nedcor's bid was announced, the sector had changed, Laubscher said and alluded to changes at BoE. He also asked if mining company Anglo should be holding a bank.

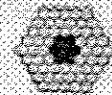
Laubscher said he expected Stanbic to embark on further delaying tactics and criticised it for doing so, saying shareholders had the right to receive an offer. He said he did not think that hostile defences should be allowed. The job of the board is to advise shareholders on the bid and then get out of the way and let shareholders decide. Laubscher criticised SAs mergers and acquisitions environment in relation to the drawn out nature of the bid.

The bid was initiated in September but shareholders have yet to see an offer.

Nedcor has not made an offer because it has 90-days to conclude an offer and if it is not concluded the offer will lapse. The offer must be made under the auspices of the Securities Regulation Panel.

Asked if Nedcor would look for other opportunities or go it alone if the merger did not take place, Laubscher said that the words go it alone did not fit in to its strategy.

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Stanbic reopens war of words

May 10, 2000

By Richard Stovin-Bradford

Johannesburg - Standard Bank Investment Corporation (Stanbic), the country's second largest retail bank and the target of a proposed bid from rival Nedcor, used its latest annual report to slam the bid and rekindle its war of words against Nedcor.

Conrad Strauss, the chairman, said in his annual statement: "The bid by Nedcor, fully supported by Old Mutual, was unsolicited and hostile. It is resisted by your board because of its inequity to the majority of Stanbic shareholders."

Late last year and earlier this year, Old Mutual sought to play down the notion that it was driving Nedcor's bid for Stanbic.

But local bank analysts say the financial services group's position as Nedcor's controlling shareholder and a major shareholder in Stanbic undermines such a claim.

The use by a listed company, in this case Stanbic, of its annual report to restate its defence arguments is believed to be a first in local corporate history, where hostile bids are rare.

One analyst said the report's crisp presentation and the unusually upbeat descriptive style showed that Nedcor's bid had at least benefited shareholders by giving them more understandable company information.

Strauss recognised the value of Nedcor's bid as wake-up call: "An important consequence of the unsolicited bid has been a reappraisal and re-evaluation of our organisational and operational strengths and weaknesses."

Strauss's statement, like previous Stanbic statements, stopped short of ruling out the principle of a merger. He said Nedcor's offer was inadequate. "The ratio of one Nedcor share in exchange for 5,5 Stanbic shares would deliver approximately 50 percent of a merged entity to Stanbic shareholders.

"On the other hand, Stanbic would deliver approximately 20 percent more earnings and approximately 38 percent more capital than Nedcor. Nedcor's formal offer to Stanbic cannot proceed without the approval of the registrar of banks and the finance minister.

Analysts are divided as to whether Nedcor has the same

them.

Stanbic's shares lost 70c to close at R21,70 while Nedcor's shares lost 40c to close at R116,50.

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**BANKS MERGER DEBATE HEATING UP AGAIN**

2006/05/10 12:00:00 AM

**Market seems to be turning away from optimism over chance of bids success
CAPE TOWN - An impending announcement on whether Nedcor will gain regulatory approval to make a hostile bid for Standard Bank Investment Corporation (Stanbic) has reopened an intense debate on the appropriate swap ratio.**

The market is apparently now turning away from its previous optimism over the chances of the bids success.

Market commentators have speculated recently that Nedcor was thinking of increasing its hostile offer beyond its best offer of 5,5 Stanbic shares for every Nedcor share.

The market has assumed that the eventual bid will be substantially better than this and the ratio has wavered around five to one. However, some fund managers now feel even this would be not enough. After flowing strongly in favour of the deal for some time, the ratio opened widely yesterday.

This move quashes recent speculation that Nedcor was thinking of increasing its proposed offer.

In September last year Nedcor indicated it would make a bid at 6,3 Stanbic shares to every Nedcor share. In November, after the bid turned hostile, it revised the offer to 5:1.

Nedcor CE Richard Laubscher has said often since then that he would not increase the offer and did not want to overpay.

Looking at the trading prices of the two counters, the ratio has, at times, gone below 5:1.

The ratio was at just more than 5,1:1 in early trade yesterday, suggesting shareholders would probably not look at a bid of less than 5:1.

However, by the end of trade, Nedcor's share price had lost 0,17%, while Stanbic's lost 3,56%, bringing the ratio to 5,34:1, more in line with Nedcor's stated offer.

Nedcor finance director Tony Routledge said yesterday he was not able to comment on the pricing and that pricing has not been an issue for us and won't be until we get the go-ahead.

He said that when Nedcor did make its offer, it might or might not vary from what was previously indicated.

Routledge denied speculation that Nedcor was about to embark on another road show, saying Nedcor was just waiting for the finance minister to approve recommendations on the merger.

merger

Nedcor-Stanbic union may first strain shares

May 24, 2000

By Nicole Mordant

Johannesburg - A merger of banking rivals Nedcor and Standard Bank Investment Corporation (Stanbic) could at first put pressure on their shares as a union of two of South Africa's biggest banks looks a long and painful haul, analysts said yesterday.

However, as the expected tie-up benefits of deep cost cuts and greater size give the enlarged group more muscle to compete internationally, Africa's biggest bank could win back some fans.

In the event that the deal falls through, analysts reckon shares in Stanbic would be the biggest immediate beneficiary.

Speculation on the future of both banks' share prices has heightened ahead of a ruling any day now from finance minister Trevor Manuel on whether Nedcor's unsolicited bid for bigger rival Stanbic can go ahead.

"If the bid goes ahead, market sentiment is that value will be destroyed in the short term and prices negatively affected," said Clive Cook, banking analyst at BoE Securities.

Nedcor's all-share offer of one of its stock for 5,5 of Stanbic's has confined the share prices of the two competitors near the bid ratio since details of the offer were announced last November.

Expectations, even from some of those in the bid camp, are that the bedding-down of the merger could be painful and take several years as two institutions with thousands of employees and different IT systems are combined.

Banking mergers in South Africa have not been plain sailing. Absa chief Nallie Bosman said last month that the union of the four retail banks that made up the country's biggest lender took more than seven years to settle down completely. The fact that Nedcor's bid turned hostile when Stanbic vehemently rejected it and launched a comprehensive defence makes an initial easy marriage even more improbable.

Nedcor shares closed 40c firmer at R110 rand. Stanbic was 65c higher at R22,35.

The market appears equally ranged for and against the chances of the bid getting the thumbs-up from Manuel.

Some reckon he cannot go against the global trend of bank consolidation and that Nedcor's argument that South Africa needs a banking behemoth to have a chance to compete on the world stage holds much water.

But critics of the merger say Manuel would be hard-pressed to approve a deal that could put up to 10 000 employees out of work in a country where a third of the economically active population is unemployed and jobs are a politicised issue.

If Manuel does give the green light, most analysts expect Nedcor to get the shareholder support needed to seal the deal. Nedcor is seen to have solid support from about 35 percent of Stanbic's stockholders.

Another 15 percent to get the required 50 percent is not regarded as a huge hurdle, although some analysts think Nedcor may sweeten its one-for-5,5 ratio.

Decillion Capital banking analyst Andre Malan believes an unsuccessful bid would boost Nedcor's share price in the short term.

Nedcor is a favourite with the market thanks to its repeated strong earnings growth. - Reuters

Stanbic attacks the terms of Nedcor bid

By Richard Stovin-Bradford

Johannesburg - Standard Bank Investment Corporation (Stanbic) remained "extremely dissatisfied" with the mechanism of the proposed bid presented by its smaller rival Nedcor because it could allow Nedcor to assume control of the bank with support from very few independent Stanbic shareholders, Conrad Strauss, the chairman of Stanbic, said yesterday.

Speaking at his company's annual general meeting, Strauss said Stanbic had requested a full hearing from the Securities Regulation Panel (SRP), which was waiting for a look-in on the proposed takeover.

Stanbic's board would continue to "vigorously oppose Nedcor's coercive mechanism" until Nedcor structured its offer in a manner that did not infringe or abuse independent shareholders' rights.

As in previous exchanges in the takeover tussle, Stanbic steered clear of ruling out the principle of a merger or takeover, but it fiercely attacked the terms and conditions Nedcor has made public.

Most international corporate financiers based here and some local analysts have interpreted Stanbic's stance so far as a classic defence tactic designed to elicit a higher and completely unconditional offer for its shareholders.

Strauss said Stanbic understood that Nedcor required, and had indicated it would seek, the approval of the necessary regulatory authorities before a formal bid was made.

But he noted that the timetable for the regulatory authorities' decision was uncertain.

"Stanbic is acutely aware that it is imperative that if the regulatory authorities give their approval, shareholders should be allowed to decide on a Nedcor/Stanbic combination as soon as is possible," he said.

"However it is the board's duty and responsibility to ensure that the interests of all stakeholders are protected and, specifically in regard to Stanbic shareholders, that both the price and the structure of Nedcor's bid is such that it is fair to them."

Once again Strauss said the Stanbic board was convinced that Nedcor's offer of one of its own shares for every 5,5 Stanbic shares (or 5,25 shares in the event of a Stanbic recommendation) undervalued Stanbic's contribution to the enlarged entity.

"Given the execution risk in the hostile takeover, the lack of a full cash alternative, as well as Stanbic's standalone prospects, Nedcor's proposal is inadequate," he said.

Analysts remain divided as to whether Nedcor's bid would be allowed to proceed. Nedcor's shares closed unchanged at R118 while Stanbic's shares lost 5c to close at R22,30.

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Thursday, 24 August 2006

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WATCHDOG IS OPPOSED TO TAKEOVER

2000/05/25 12:00:00 AM

Competition in the industry could drop if Nedcor succeeds in its bid for Stanbic, says report

THE Competition Commission has expressed strong reservations about Nedcor's bid for Standard Bank Investment Corporation (Stanbic) in its report to the registrar of banks.

The report was handed to registrar of banks Christo Wiese last month.

Sources close to the competition authority said it opposed the proposed Nedcor-Stanbic merger on the grounds that it would lessen or prevent competition in SAs banking industry.

Neither Wiese nor the commission would comment.

Nedcor launched its bid for Stanbic, SAs biggest hostile takeover bid, in September last year.

SAs courts have ruled that the commission has no jurisdiction over the merger, which requires the approval of Finance Minister Trevor Manuel alone. Manuel is advised by the banking regulator. However, the commission has to be consulted.

The commission's compliance officer, Astrid Ludin, said the commission could not comment on the contents of its report. The authority did not have jurisdiction over the deal and could not pre-empt the finance minister. However, Ludin said the commission would be willing to comment after Manuel had made his announcement.

Wiese said he had noted the commission's findings as he was obliged to do by the Banks Act.

He has completed his report and it is now going through a consultative process within the Reserve Bank. Wiese said the Bank, not he, would be making a recommendation to Manuel.

A spokesman for Manuel confirmed the ministry had not yet received a formal report from the banking regulator.

Industry speculation is that the Bank and Manuel may give the deal the go-ahead but attach stringent conditions. Nedcor could, for example, be required to divest divisions, such as credit cards, in which the merged entity would have excessively high market shares. Based on the bank's end-December returns to the Reserve Bank, Stanbic's adviser, JP Morgan, has estimated that a merged Nedcor-Stanbic would have 54% of SAs credit cards and 40% of individuals home loans.

It would also hold 54% of SAs cash, cheque and transmission account deposits. Its overall

'Too early' for Nedcor decision on Stanbic UK

By Nicole Mordant

Johannesburg - Nedcor, the banking group, said yesterday it had not decided whether it would sell the London operations of Stanbic if its hostile bid for rival lender was successful, although the step is seen as likely.

"It is too early for us to tell whether disposal is the best strategy for their London operations," said Rick Tudhope, the investor relations head for Nedcor. He was commenting on a UK newspaper report that Nedcor was drawing up plans to sell off Stanbic's business in London. However, a source close to Nedcor said that disposal was the likely route as Stanbic's London operations, which specialise in trading debt, did not fit comfortably with those of Nedcor.

The Sunday Telegraph, quoting unnamed bankers close to Nedcor, said the lender had decided that Stanbic's London business was "too risky". It said the UK group could be worth up to £300 million.

A Stanbic spokesman said that it had no information about Nedcor's intentions for its London office, but said that if there was any substance to the speculation, it was further justification for its opposition to Nedcor's attempted takeover.

"Standard Bank London is an important element in our international strategy of diversification into markets in which our experience gives us particular expertise," he said.

The London operation is the kingpin in Stanbic's international group in size of balance sheet and profitability.

Nedcor gained 200c to R127 while Stanbic gained 45c to R24 65

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**NEDCOR TALKS OF 7 000 NEW JOBS**

2000/06/13 12:00:00 AM

NEDCOR says it will hire 7000 people in the first three years if its bid for the Standard Bank Investment Corporation (Stanbic) is successful.

The claim, contained in a statement issued yesterday, contradicts the view of some commentators that the merger will lead to the loss of 10000 jobs.

Nedcor human resources director Lot Ndlovu said the merged entity would need 40000 workers, compared to the 50000 the two banks currently employ.

However, natural attrition in the industry is running at 13,6% annually. The merged entity could therefore be expected to lose nearly 18000 employees in its first three years, and so would have to hire a net 7000.

Ndlovu said there was no special reason for the statement. However, the group felt it needed to clarify the issue. The first thing people ask when you say you are from Nedcor is are you going to retrench 10000?

Ndlovus comments follow a lull in the war of words between the two banks over Nedcors hostile bid. The market is waiting to see if the deal will be approved by banking regulators. Nedcors application to buy control of Stanbic is with Finance Minister Trevor Manuel, who is considering the views of the banks registrar, the competition commission and the two banks before he rules on it.

Although prudential and competition issues are likely to be key to his decision, Nedcor sources say regulators may be worried about job losses.

Nedcor has also faced protests from the Society of SA Bank Officials, which says the merger may kill 15000 jobs.

Ndlovu said while 10000 positions might be lost as a result of the merger, much of this would be by natural attrition.

The group would provide training for retrenched staff.

Ndlovu said Nedcor had a good track record. Last year, it eliminated 1049 jobs but there were only 115 retrenchments. When it revitalised the Perm two years ago, the group closed 70 branches, affecting 488 people, but there were only 49 lay-offs.

He said a number of medium-sized SA financial services companies were hiring staff and that there were about 85 foreign banks in SA. I dont think many competent bank officials will struggle to find work, he said.

Sasbo hails end to takeover that would have cost thousands of jobs

By Frank Nxumalo

Johannesburg - It was 'gigantic party time' last night for the South African Society of Bank Officials (Sasbo), the finance union, after Trevor Manuel, the finance minister, blocked Nedcor's hostile takeover bid for Standard Bank Investment Corporation (Stanbic).

Sasbo had campaigned fiercely against the proposed merger since it was made public during the latter half of last year.

A few months ago Sasbo released 10 000 balloons in the green and blue colours of Nedcor and Stanbic into the wintry skies of the country's major urban centres to symbolise the number of jobs that would be lost if the proposed merger went ahead.

The union said it wished to thank Manuel and the government for the "bold decision that they have taken".

Graeme Rowan, the general secretary, said: "Sasbo acknowledges the part that minister Manuel has played and to say that I am absolutely delighted would be an understatement." Rowan said it was obvious that Manuel and the government were sincere about the extent of job losses that were taking place in South Africa. The union would like to thank all its members who had participated in the balloons demonstrations, he said.

"As far as I know, Sasbo is the only trade union, not only in South Africa but the whole world, that has successfully campaigned against a bank merger that would have resulted in the loss of 15 000 jobs in the South African economy."

Rowan said the union was sure that its members' action played a major role in Manuel's refusal to allow Nedcor's hostile takeover bid to go ahead.

"Sasbo believes that closely followed by its cousin crime, unemployment is public enemy number one in South Africa.

"Sasbo will be throwing a gigantic party tonight."

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Manuel sinks bank merger

By Lynda Loxton

Cape Town - One of South Africa's most bitterly contested takeover attempts drew to a close yesterday when Trevor Manuel, the finance minister, ruled against Nedcor's application to buy more than 49 percent of Standard Bank Investment Corporation (Stanbic).

His announcement in Parliament ended months of speculation, attack and counter-attack by both parties and earned Manuel a loud round of applause in the National Assembly.

Manuel said that after considering the recommendations of both the Registrar of Banks and the Competition Commission, he had turned the application down because he was "not satisfied that the potential efficiency gains would exceed the public interest concerns of diminished competition, potential market concentration and job losses, and the attendant risks if the merged entity were to fail".

The fact that the bid had been hostile was only one of the many factors considered, but he would have been "extremely concerned" if it had been a friendly bid given all the negative aspects involved.

Manuel later told a media briefing that he had told Conrad Strauss, the chairman of Stanbic, and Chris Liebenberg, the chairman of Nedcor, about his decision earlier in the day.

"At one level there was a sigh of relief because whichever way the decision was going we have finally been able to arrive at a decision."

Both had commended Manuel for the fact that there had been no leaks and the whole process had been "managed quite tightly", he said.

"The initial reaction was that our approach was well reasoned but they both indicated that they need to examine this in detail and they would communicate with us if there are further questions.

"My appeal, however, would be that we not protract uncertainty. It is not good for the institutions."

On the possibility of Nedcor going ahead with plans to take over another bank, Manuel said the application would be considered if and when it arrived.

Again, however, a major deciding factor would be the so-called "H-index", which measured concentration and the extent of competition in the banking sector.

In the Nedcor-Stanbic case, this would have risen from 0,15 to 0,21 and would "leave South Africa with an even more concentrated banking sector well outside accepted international thresholds".

The merger would also have reduced public access to ATMs while giving Old Mutual plc an "overly dominant position" in South Africa's financial sector, to the possible detriment of Liberty Group shareholders.

Manuel had also been concerned about the fact that while Stanbic focused on the mass market, Nedcor had limited its risk profile by concentrating on the middle- to upper-income bracket.

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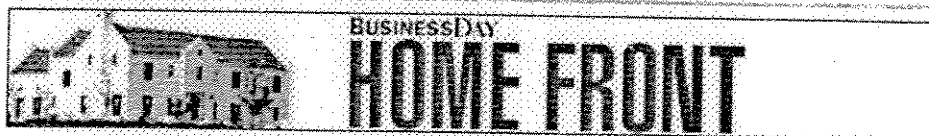
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**NEDCORS BID BLOCKED**

2000/06/22 12:00:00 AM

The decision puts end to the 10-month hostile bid for Stanbic, and is likely to affect other bids

FINANCE Minister Trevor Manuel has provided pointers to the future shape of SAs banking sector by refusing to allow Nedcor to take over Standard Bank Investment Corporation (Stanbic).

Manuel announced his decision in Parliament yesterday, putting an end to the 10-month Nedcor-Stanbic hostile bid saga. It is likely that he has also curbed any other merger bids among SAs four big banks, since the concerns he cited would apply equally to other mergers.

He said he was concerned about the size of a merged Nedcor-Stanbic, and the possibility that it would have an adverse effect on the ability of the banking authorities to stem systems crises. The potential efficiency gains of a merger outweighed the potential social costs in terms of potential abuse of market power and job losses.

Manuel took into account the recommendations of the registrar of banks and the Competition Commission, both of which had opposed Nedcors bid on public interest grounds.

He said SAs banking sector was already highly concentrated and the merger, which would result in an entity with a total asset value of R344,2bn, would take concentration beyond accepted international levels, leading to negative international perceptions.

He said the merger would reduce competition, result in excessive market concentration in an already concentrated sector and lead to the loss of between 10000 and 15000 jobs. It could also reduce the ability of smaller banks to attract deposits. Manuel said SA had to guard against the too-rapid erosion of the number of its banks.

Though the hostility of the proposed merger was a factor, Manuel said he would have been concerned about it even if it was friendly.

Stanbics share price fell almost 9% on the news, but recovered later to close only 4% down, at R24.65. Nedcors share closed 2% down at R135.

Nedcor chairman Chris Liebenberg said the ministers decision implied a four-pillar approach in SA banking. Bankers now needed to think through the policy implications and discuss these with the authorities. He said the regulatory process had been handled professionally and the regulators had applied their minds.

allowed to go through.

Reuters reports analysts were surprised and disappointed at Manuels decision. ABN Amro analyst Jacques Badenhorst said stopping any mergers between the big four banks would be negative for the banking sector.

concerned about the possible effect on banking services to the underbanked and rural areas and said Nedcor's intention to relocate about 670 automatic teller machines (ATMs) to underbanked areas would shrink access in existing areas.

He noted that Standard had invested heavily in ATM access.

rationalisation of product lines may have some cost benefit to consumers, but could also work against them, for instance where a less profitable, but needed product, was discontinued.

proposal as hostile and did not believe a shared vision, corporate outlook and culture existed with Nedcor. The information technologies were also incompatible.

Nedcor-Stanbic Ruling: Page 19 Comment: Page 15



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Cosatu welcomes Manuel's decision

By Frank Nxumalo

Johannesburg - Shares in Nedcor and Standard Bank Investment Corporation (Stanbic) continued to plummet yesterday following the refusal this week by Trevor Manuel, the minister of finance, to allow Nedcor to merge with Stanbic .

Nedcor dropped 1,48 percent to end the day at R133, while Stanbic dropped 15c to end at R24,50.

Cosatu yesterday welcomed the decision by the finance minister not to allow Nedcor to proceed with its hostile bid.

"We believe this will remove the threat of further job losses in the banking industry (and) we also believe it is important to increase the level of competition in the banking industry.

"We would not be the ones to see a situation where there are a few big banking companies which dominate the industry and we have always said that the victories of our struggle must be transformed into economic liberation for the majority of South Africans," Cosatu said.

It said the banks had a crucial role to play in ensuring poor people had access to finance and were given the best advice on how to manage their savings.

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2000/08/15 12:00:00 AM

STANBIC will post an earnings leap of up to 26% in its interim results this week, despite the money it spent repelling a takeover bid by rival bank Nedcor, analysts said yesterday.

I expect a good solid performance from Stanbic, with no negative surprises, said Investec banking analyst Hennie Strauss, who predicts a 25% increase in headline earnings. Stanbic shares leapt more than 5% at one stage in early trade yesterday to R29,20 just short of the year high of R29,80 set on February 9 as investors responded to positive earnings forecasts. Later in the day it surrendered some ground but remained 3,25% stronger at R28,60, before closing at R28,70.

Analysts predict headline earnings a share will rise to between 127c and 130c from 99,4c in the same period last year when Standard Bank Investment Corporation unveils its result for the six months to June 30 tomorrow.

Stanbic, the countrys biggest bank in terms of assets, won its battle to remain independent when Finance Minister Trevor Manuel scuppered smaller rival Nedcors hostile bid in June, ruling that a deal would be anticompetitive.

Stanbic insisted it would be better off on its own and set challenging targets to prove its case to shareholders.

Ewald Muller of Fleming Martin said: The major issue is whether Stanbic is on track to meet its targets set in its merger defence document. The message appears that it is going to be under some pressure. Muller, nevertheless, expected Stanbic to notch up a 26% increase in headline earnings.

Stanbic has easily absorbed the cost of its R77m defence against Nedcor last year and this will not have much of an effect on its interim figures, analysts say.

They provided for the defence in last years numbers, so the cost is not going to come through this year, ABN Amro banking analyst Jacques Badenhorst said. Reuters.

Stanbic rise in line with expectations

By Lukanyo Mhyanda

Johannesburg – Standard Bank Investment Corporation (Stanbic) lived up to promises made during its defence against a hostile takeover bid by rival Nedcor last year, notching up a 26 percent rise in headline earnings a share to 285c for the year to December.

The performance was exactly in line with expectations, but failed to excite the market, with its shares ending 4 percent weaker at R30,75. Analysts were cautious not to read too much into the share price movements, and said Stanbic had merely led the sector downwards on a day of general market weakness.

In line with market expectations, the performance was achieved after a strong performance by its retail operations, which were helped on by cost-cutting measures and greater control over credit losses. The contribution by retail banking was up 45 percent at R1,1 billion.

Stanbic managed to reduce its cost to income ratio to 58,9 percent from 61,6 percent in the corresponding period last year, while the charge for credit losses was 8 percent lower at R1,44 billion or 1,2 percent of advances. Non-performing loans as a percentage of average loans were down to 4,4 percent, compared with 5,5 percent in the corresponding period last year. Operating expenses were limited to a 6 percent rise to R8,5 billion.

Jacko Maree, Stanbic's chief executive, said the threat presented by Nedcor's takeover bid had accelerated a thorough review of the bank's strategies and prospects, hence the setting of specific earnings targets.

"The result was a set of targets that would convince investors and shareholders to retain and renew their faith in the group," he said. Stanbic did not set specific earnings targets for the current year, but was confident of maintaining its historical growth rates.

According to Stanbic, net income before provisions grew 7 percent to R7,2 billion, while margins declined to 3,8 percent from 3,9 percent, mainly due to lower interest rates and sluggish growth in domestic and loans and advances.

The group declared a final dividend of 63c, pushing the total for the year to 85c, a rise of 25 percent on the previous year.

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ANNEXURE C: A CASE STUDY OF A NON-EXECUTIVE DIRECTOR BEING CHARGED OF CORRUPTION AT SOUTH AFRICA'S FIRSTRAND BANK

C.1 Purpose of this annexure

The purpose of this annexure is to investigate the crisis communication strategies to the media employed by FirstRand during the well-publicised case where a non-executive director of FirstRand, Mr Mac Maharaj, was accused of corruption. This was considered to be a big crisis for the Group, in that a substantial amount of intensive negative publicity was incurred and questions regarding its corporate governance policy were raised in the eight-month period of the crisis. Information gleaned for this chapter was obtained from archived media reports and from interviews with the head of FirstRand's media communication who was responsible for advising FirstRand on how to deal with the crisis. She joined FirstRand just after the crisis broke in the media. In order to provide context, the full details of the crisis together with supporting commentary from selected newspaper articles is described.

C.2 Details of the crisis

The Sunday Times of 16 February 2003 reported that non-executive director of FirstRand and former transport minister, Mr Mac Maharaj, and his wife Zarina accepted payments and gifts worth R500 000 from Durban-based businessman Schabir Shaik after the transport ministry, that Maharaj then

headed, awarded lucrative licensing and toll-road contracts to companies associated with Shaik. Shaik was, at that time, under investigation by the South African police elite unit, the Scorpions, for his alleged involvement in corruption in a multi-billion rand arms deal. Most of the payments and gifts were given before Maharaj left the cabinet in 1999. Shaik, who was the personal financial adviser to then Deputy President Jacob Zuma, was the chief executive of Nkobi holdings and a director of Nkombi Investments. Nkombi investments was part of the N3 Toll Road Consortium, which was awarded a R2,5-billion tender to upgrade the road from Johannesburg to Durban by the Department of Transport while Maharaj was the minister. An Nkobi Holdings subsidiary, Kobitech, was part of the consortium Probida, which won a R265-million contract to produce new credit-card driver's licences. The paper reported that documents in its possession suggested that the payments made by Shaik to Maharaj and his wife, were paid in the four months after he announced N3 Toll Road Consortium as the preferred bidder.

The board of directors of FirstRand gave Maharaj leave of absence from his role as non-executive director of the company, while, with Maharaj's agreement, FirstRand appointed a leading firm of attorneys to conduct an independent enquiry into the newspaper allegations of corruption. Maharaj offered to resign when the original allegations appeared in the Sunday Times newspaper. The Board felt that to accept his resignation at that point would have led to a presumption of guilt, and therefore chose the option of granting Maharaj leave of absence until an investigation by an independent third party was complete.

Mr Laurie Dippenaar, FirstRand Chairperson, explained at the announcement of the appointment of the attorneys to investigate the matter that FirstRand was seeking to clarify the uncertainty, regarding the allegations, in an objective and transparent manner, while abiding by the principles of due process and sound corporate governance.

After the four month enquiry, Maharaj resigned from FirstRand, even though the findings were not conclusive: *The team did not find any evidence linking payments from Mr Shaik to Mr Maharaj with the awarding of the N3 Toll Road tender of the drivers licence card contract to Shaik* (Sunday Times 2003:2). But the media felt that the statement put out by FirstRand suggested that the Bank believed Maharaj has been tainted by a succession of poorly explained payments from Shaik. *More questions than answers. FirstRand's guarded report on its investigation into Mac Maharaj's business dealings fails to exonerate the former transport minister* (Sunday Times 2003:1).

In a lengthy article printed in the opinion pages of Business Day (2003:15), Dippenaar wrote that the company had three choices when the allegations against Maharaj had surfaced. *We could have taken the easy way out and argued that the allegations related to a set of circumstances that was none of our business. We could have sidestepped the issue, and argued that if there were questions about Maharaj's conduct while he was transport minister, these should be addressed by his "employer" at the time – namely the South African government. To take the other extreme, if we had had something to hide as FirstRand we could have accepted Maharaj's resignation there and*

then. He said that when the allegations were first published, there was no suggestion that Maharaj had since, joining the FirstRand board, been involved in any sort of impropriety. Dippenaar wrote in the Business Day that the allegations against Maharaj had grown, *and along the way have collected a series of insinuations: insinuations of a “swinging door” that brings politicians into business*. He wrote in Business Day that there had been suggestions that FirstRand was a beneficiary of contracts granted by Maharaj while he was transport minister and there had been suggestions that FirstRand had something to hide, *for example the situation relating to the awarding of the N3 toll road contract*. Dippenaar said FirstRand believed they had done the correct thing in ordering a full investigation into the initial allegations. *These are not the actions of an institution engaged in a cover up*, he wrote in Business Day. Dippenaar wrote that it was important to comment on their approach to corporate governance and *conflicts of interest*. *Concerns have been raised about perceived conflicts of interest regarding non-executive, independent directors of FirstRand who sat on the board of the National Roads Agency at the time of the award of the N3 contract*. He wrote that FirstRand had absolute faith that the actions taken by their directors had been beyond reproach, saying that the *real issue* was not that conflicts of interest may exist, but that the real issue was *the manner in which they are managed*.

He wrote in Business Day, that: *It is not feasible to tell our independent directors that once they join the FirstRand board they cannot sit on any other board for fear of conflicts. We must trust them and the well established and*

proven regulatory mechanisms at their disposal, to manage these conflicts in an honest and professional manner.

C.3 Critical Analysis: Insights, comments and lessons derived from the crisis

Themes derived from an analysis of FirstRand's crisis are explained.

C.3.1 Avoid being defensive; be transparent

Initially, FirstRand had been moderately defensive with the journalists. Internally, it seemed that they were doing all the correct things. They appointed a board of independent auditors to investigate the allegations and were following the correct procedures. But externally, according to the head of media communications at First Rand, they were not being clear or accessible in their communications. This caused a problem, in that the journalists became suspicious of FirstRand in the crisis. The head of media communication at FirstRand explained: *Every time a journalist phoned they were a bit defensive about what they had done and they certainly were accused of being not particularly transparent by the time I arrived. The management were stressed and they were very lost around how to deal with it and I do think that to a certain extent they tried to deal with it in an honest way, but they were under siege because they weren't really communicating very well. They were doing all the right things internally from a governance and reputation perspective but they weren't communicating that properly. They were on the defensive.*

C.3.2 Be proactive with journalists

The head of media communication at FirstRand believes that one of the key considerations in a crisis is for the company spokesperson to be available to journalists. In this way, they are able to get information on the crisis from the source, and are not left to search for information second-hand or third-hand. The company is then able to control the messages imparted to the journalists and there is a greater chance of accurate information being reported. In this case, FirstRand seemed to be so intent on conducting themselves in a proper manner, that they didn't open themselves to media scrutiny and were criticised for this. FirstRand needed to be more pro-active in their communications. The head of media communication at FirstRand said: *I think there are three basic rules to managing a crisis. The first one is – don't hide. Be completely and 100% accessible to anybody who wants to talk to you whether it's a customer or a journalist or an analyst or whatever. The second thing is to be proactive, so therefore, don't constantly be on the end of a response. Try and get statements out and try and set the agenda from your perspective rather than constantly be responding to somebody else's agenda.*

Journalists would phone and they'd (management) speak to them on the phone. They'd feel hugely uncomfortable and unprepared and generally the dynamic between the management and the press was very poor. I already had existing relationships with the journalists that were writing on it so that was quite helpful.

After coming on board, the head of media communication at FirstRand decided that instead of responding just on the phone to journalists, FirstRand should get the four or five key journalists that were reporting on the story to meet individually with management and hear its side of the story, in a one-on-one fashion. This proved to be successful in that Laurie Dippenaar, Chairman of FirstRand, the lawyers and the head of media communication were able to sit with each of the journalists on an individual basis and explain that when the allegations came out they had not been proved – they were just allegations. FirstRand felt that they couldn't fire Maharaj just on the basis of unfounded allegations. They believed that there was a due process required. They were able to explain the due process and the steps that they were taking. This helped to take away the sense among the journalists that FirstRand was trying to hide something or was part of the conspiracy surrounding Maharaj. The head of media communication said: *It was just to explain to journalists. There was a disconnect (a misunderstanding) between what they thought we were doing and what we were saying to them and what we were actually doing. So it was just a little perception gap we had to deal with and that helped hugely because suddenly journalists could look Laurie in the eye and he could explain exactly what we were doing. Now, it was those rules that we talked about. One, he made himself very available to people on a one-on-one basis and would answer all their questions. Two, we got pro-active, we got people in and said can we explain what's going on and three, it was just a very honest conversation about what we were trying to do. So that took the heat out of it and people stopped accusing us then of hiding something. Then everyone was aware of what the process was.*

But then the head of media communication at FirstRand faced another perception issue. FirstRand was discontent with the initial investigation because it did not stand up to scrutiny. The executives felt that the process had not been robust enough and their sense was that if they tried to explain it to the outside world, they would be accused of not having conducted the investigation properly. FirstRand then contracted forensic auditors to do a proper forensic analysis of the Maharaj/Shaik relationship. However, this process took longer than expected and FirstRand was accused of delaying tactics. The media started to believe that FirstRand perhaps was not happy with the results of the investigation and so were delaying the process. The perception was that possibly FirstRand was implicated in the whole saga with Maharaj and the awarding of the Toll Road contract. The head of media communication at FirstRand again proactively released another formal statement, and called the journalists in for another round of one-on-ones with the CEO. She explained: *We said we actually felt that it wasn't a robust enough analysis and it hadn't gone into enough detail and we wanted more detail, not less, and we're not trying to hide anything and we will fully update you when we get the report.*

The media communication strategy for FirstRand was to make every effort to be transparent. FirstRand could not afford to be accused of hiding anything, so tactically, they communicated every step of the way to everyone, including the media. The head of media communication explained: *Every time we made a decision we would tell the analysts, journalists, issue a statement, to try and get people to understand that we weren't going to whitewash this thing. We*

were going to see it through, warts and all. We wanted to make sure that it was properly done and that we followed every governance procedure.

C.3.3 Know when not to tackle a journalist

Another issue the FirstRand media communications team had to face was that Noseweek, a weekly investigative magazine, which is known for its acerbic, sometimes jaundiced commentary, printed articles in which it blatantly accused FirstRand of being part of a massive conspiracy because Maharaj had had a relationship with an existing director at Rand Merchant Bank, and Maharaj had been the minister of transport when FirstRand won the N3 Toll Road contract. Noseweek started a conspiracy theory which abounded. This is an example of how a crisis can be perpetuated in the media through negative publicity.

The head of media communications at FirstRand advised the CEO against having a one-on-one interview with the Noseweek writer of the conspiracy theory. Because it had been shown that individual interviews with journalists had helped to clarify matters in an open and transparent way, the CEO considered it best to tackle the writer head on. She explains: *I said: "We're wasting our time. Don't expose yourself to the guy." Anyway I hadn't been here (at FirstRand) very long and he didn't listen to me. So anyway, we went along, and he (the CEO) subsequently said it was a mistake because the man (writer at Noseweek) drove him into a fury and the meeting went really badly. So that was a mistake. We should not have done that. Certain journalists*

you can engage with and certain journalists you are actually exposing yourself unnecessarily so that was an error of judgement. We shouldn't have done that – and we battled with Noseweek for months on that deal. So anyway, we came away from the meeting and I said to him (the CEO): “Laurie, let's write a letter instead. Let's formally go on the record in terms of our position and let's insist that he publishes it because that meeting did not go well.”

From the above discussion, the lesson is that the organisation must know which journalists are acceptable to engage with and in which cases it is best not to do so. Noseweek is well known for its strong-arm, aggressive writing style. It did not help for the Chairman of FirstRand to try and engage a particular journalist in a discussion as his aggressive style was not acceptable to the Chairman and an altercation occurred between the journalist and the Chairman. Very often, organisational spokespeople in very senior positions are used to being in control of situations but the one situation it is dangerous to even try and control, is that involving a journalist. At the end of the day it is the journalist who can create the headlines and is thus in greater control.

C.3.4 Have a script and stick to it

One of the strategies followed by FirstRand's media communication team was to make sure that all the spokespeople had an official script, or party line, and repeated the key messages in all the interviews so that there were no discrepancies or contradictions. The key messages were clear and simple. They were: *We're following due process, you can ask us any question, we'll*

try and answer it. We are fully transparent, when we get the report, we promise to brief you. The head of media communications at FirstRand explained: *We kept falling back on the expression that we're following due process and the one thing that I'll say about the Mac crisis, is that we had a script and we stuck to it. Everybody stuck to it. We didn't deviate from it.* By repeating the key messages at every possible opportunity, consistency was ensured and media perceptions were controlled.

C.3.5 Third party endorsement

Another technique the head of media communications and her team employed to address the fact that FirstRand could not release the full report to the media because of the legalities involved, was to give it to third parties who were credible, such as the Reserve Bank, the Financial Services Board, the regulators. This helped to dispel the misperception that FirstRand was trying to conceal something. The head of media communication at FirstRand explained: *We got criticised in the press for not releasing the full report. You see, we got around that by giving the full report to third parties. We gave the full report to Gill Marcus who was then with the Reserve Bank. Now, that's the one thing I forgot to mention. This whole strategy of third party endorsement, getting credible third parties to be a sponsor because we couldn't give it to the press. So we said to the press, we can't give it to you for all these reasons – sub judice etc. But you can't accuse us of hiding anything. We've given it to the Reserve Bank. So it's using third parties who are credible. We could say that we're not hiding anything – otherwise we wouldn't have given it to the Reserve Bank - and the Financial Services*

Board. We gave it to all the regulators. We gave them the full thing. We said to the press that you have to understand, we can't give it to you, we are giving you as much as we can, but we have given it to the regulators. So hey, there's no cover-up here. And Mac couldn't disagree with us giving it to the regulators. There's a big difference giving things to the regulators as opposed to the media. I mean, you give documents to the media, they can quote things out of context, they could have really hurt Mac. They could have hurt us. But he couldn't stop us giving the report to the regulators, because they weren't going to leak it. The only fear we did have was that we also gave it to the Scorpions, the full report. So no one could say we covered anything. So that was also our position. We've given the press as much as we can. We wrote an eight-page press release with all the key findings, with extracts from the report. But we wouldn't give them the report. It annoyed them that we couldn't give them the report because they knew there was stuff in there that they wanted to see. But we had to stick to our guns.

As is evident from the discussion with the head of media communication, it proved difficult to balance the needs of various parties and a lot of negotiation was involved before releasing a statement to the media. In response to a question of whether this tactic satisfied the media, she said: *It did, to some degree. Not completely. It certainly satisfied the regulators. The media were unsatisfiable - absolutely unsatisfiable. Unless we said, "yes", they were not going to be satisfied. But then we had to come up with all credible reasons of why we couldn't and you know companies often duck and dive behind sub judice and client confidentiality and all that sort of thing, they do, its one of*

their favourites. So that didn't really wash with them, but, to a certain extent, you have to rely on whether they trust you or not. Yes, they were irritated, because they wanted the story, but fundamentally, in the end they stopped hounding us because they trusted Laurie, because Laurie wears his heart on his sleeve and he's a very open and transparent person. In the end they just had to stop and give in and accept that what they got was what they got and we took the high ground by saying, well, we've given it to the Scorpions, the SRP, FSB, the Reserve Bank, they've got the full thing.

C.3.6 Accept that you're not going to win every battle in the press

According to the head of media communication at FirstRand, any crisis communication team must acknowledge that it will be inevitable that no matter what you do, or what strategy you follow there will be some negative publicity to contend with during a crisis. The key to managing the media successfully is not to respond to every single media report. She explained: *Accept that you are not going to win every single battle in the press. They (the other side) will have their day in the press. You then have to accept that it's their day in the press. You then have to work very hard to make sure you have your day in the press. So, you're not going to win every single skirmish, you've got to stick to your battle plan, win the key ones and hope that you come out at the end clean. Don't pick up the paper every single day and stress about what's been written and then have a knee jerk response. There might have been some really stupid articles in that week that you might have really wanted to*

respond to in a knee-jerk fashion but your thinking gets muddled as soon as you do that. You've got to stay really focussed on what you've agreed, what your tactics are, and keep it very simple.

When journalists get the facts wrong in the media, she explained that she doesn't usually contact the individual with the express purpose of demanding a retraction or an apology. She considers that this serves no purpose except to create tension with a journalist. She has, however, on one occasion, had a quiet word with a journalist on something that he had got horribly inaccurate, which had a favourable outcome, but it is not her usual practise to do so. She said: *I tend not to contact the journalists. I tend not to phone journalists up and say, you've got that very, very wrong and I want a retraction or I want you to.....It's never the same even on the next day when they print a retraction. No, generally what we would do is...I would just phone the journalist up and have a quiet word with them, but I would never ever...I don't think I've ever insisted on a retraction in my entire life because I think you just make enemies of journalists. You make them feel stupid and journalists have very fragile egos. So you can't afford to make them feel stupid. Generally what we found was that one or two would get it wrong, like xxxxx at the xxxxx (note: the name and publication of the journalist has purposely been removed). He is such a disaster. He got so many things wrong. But it was more a question of the 80/20 rule. Well, xxxxxxxx got it wrong, but lots of other journalists got it right. So at the end of the day it's degrees of right and wrong. As long as you think that fundamentally you're getting your message across even though there are one or two pockets of dissent or disagreement. My entire*

profession, I have made a rule not to reprimand journalists. Having said that, now and again, I suppose you can phone one (a journalist) up and have a conversation, but never in a way that you demand anything. In fact the time that I had a quiet word with a journalist - a week later he actually wrote something without me asking him. He found an opportunity to set the record straight in a much more powerful way in his column. What happened was, he had written something very negative and I phoned him up and said: "You know I never phone and moan but really, this is so wrong." We had a very mature debate about it and then two weeks later in his column he wrote something much more positive and it was fine. It was a mature comment.

C.3.7 Manage your own management

During a crisis, one of the challenges is, according to the head of FirstRand's media communication, to manage the organisation's senior executives. What happens during a crisis is that management are under severe stress and every time they see something in the paper, there is a tendency to react. It is very difficult for them to realise, because they are in positions of power in the organisation, that they cannot use this power externally to control journalists or the media. A lot of time must be spent by the crisis communication team, to calm the management down and encourage them to stick to the prepared messages. She said: *The problem with crises – the big challenge is to manage your own management. I mean, every time they see something really negative in the press, they go berserk and get into a frenzy and want to phone and shout at everybody. Now you've got to manage that. You've got*

to calm them down. You've got to get them to see sense. You've got to get them to stick to the rules and the plan and the script because often they don't want to. Often they go mad if they read something and that is another part of crises: do not get sidetracked and do not let your management get sidetracked and do not let them lose the plot. You know, a lot of these very senior guys are control freaks. That's why they are what they are and the thing they find so unbelievably difficult is the press. There are so few management teams that you talk to that find the press easy. It's because they're not in control of what's going to appear the next day in the press and that's the thing that they hate. They hate that feeling of powerlessness because they're powerful people and they don't like to feel powerless or at the mercy of somebody and that's a serious problem. The additional problem I've had at FirstRand is that these guys are owner-managers. I mean, they've built this business from nothing, so to attack them, to attack their company, is to attack them as people. It's not like for professional managers where it's just a job. I mean these guys built this thing from nothing to a R90 billion rand business in 30 years. I mean the blood, sweat and toil that went into that and suddenly somebody's attacking your integrity. It's hard. So in effective crisis management you must not forget to manage your own team and make sure that they don't get sidelined by bad press. Just make sure they focus on the important stuff and never be knee-jerk. The moment you knee-jerk in a crisis, you're dead. The moment you have a thought and immediately act on it, you're in serious trouble.

C.3.8 Different perspectives make a team

The head of media communication at FirstRand believes that having a crisis team comprising various different members who can bring different perspectives to managing the crisis is important. This is what helped her manage the crisis at FirstRand. Having the expertise of the lawyers, internal communications, the operations staff etc. was helpful. She said: *I also believe that in a crisis, have a team. Don't have one or two people in a corner managing a crisis. Open it up. Get lots of people thinking about it and lots of people working on it so that you can bounce ideas, you can control mavericks. Have a team. Have your little war cabinet. Meet every day, agree what you're going to do and stick to it and always act with thought. Never allow emotions to carry the day, ever, because then you're also in trouble. Those are the rules really, for me.*

C.3.9 Spokesperson likeability important

Although Laurie Dippenaar, the Chairman of FirstRand and spokesperson on the Maharaj crisis did not have an extremely proactive networking relationship with the media before the crisis, his being such an engaging man, allowed him to win the trust of the journalists during the crisis. The head of FirstRand's media communication explains: *They trusted Laurie because Laurie wears his heart on his sleeve and he's a very open and transparent person. In the end they just had to stop and give in and accept that what they got was what they got. No, I mean, prior to this crisis, he was very sort of low key, met them at*

the results, had no real relationship with them. Because he's such an engaging man – you know when we had the first set of one-on-one's when we got journalists in and we took them through the due process – that's really when that process (of relationship building with the journalists) started. But he built good relationships - funnily enough, very positive relationships through the crisis which have lasted him till now. And he's got a reputation of being straightforward and honest, even though it was incredibly painful for him, it's given him a good standing with the press. And I think journalists have grown to trust him. And when we've had other crises in the meantime, that credibility with journalists has served him very well.

C.3.10 Benefits flowing from the crisis

The head of FirstRand's media communication believes that FirstRand grew from the crisis as an organisation. One of the positive aspects that happened, as already mentioned, was that the Chairman's relationship with the journalists was cemented. FirstRand seems to have come out of the crisis unscathed and with its reputation intact. She explained: *Yes, it was hugely painful, but we came out in many ways a stronger organisation because of it. I don't think there is still any stigma attached to the Group from that and mainly because of our strategy. We didn't try and hide anything.* In September 2003, FirstRand showed solid growth in its retail, corporate and new business growth despite the year of controversy (Business Report 2003:1).

C.3.11 Respect for role of the media

The head of media communication at FirstRand is cognisant of the important role that the media plays in a crisis and it is this respect for the media that the researcher believes is critical in dealing with the journalists. She said: *With any crises, there is always a legal strategy, an investor relations strategy, there's a media strategy - another stakeholder strategy. The media obviously plays a key role around sentiment. For instance, you could say, if institutional shareholders believe that the media has whipped up a frenzy in the retail shareholder base, they have to take that, they have to bear those things in mind with their decision-making. So the media plays a role. The media keeps everybody honest and on their toes. So they are in my view, an important part of the process because without the media all these things would happen behind closed doors and that's not a good thing. So I'm a believer in the press. It frustrates me if they don't check their facts and they're one-sided and they're bloody minded and stupid - some of them are all of the above and some of them are some of the above - but fundamentally I think they play a crucial role in making sure that people's interests are protected. It's just that it can be very painful for management to deal with them. They keep management honest too.*

C.3.12 How to deal with an issue when you can't tell the media

The researcher enquired of the head of FirstRand's media communication how she deals with an issue which she can't really relay to the media, and

one which she can't hide behind the *sub judice* rule. She answered as follows: *You tell them something. At the end of the day they just want to write something. You might not be able to tell them something that you know but you can tell them something that's not a lie, but that gives them something to say because fundamentally that's all they need to do. They need to say something. You don't lie to them, but you find a way of saying something to them. It's not telling them what's really going on, but it's telling them something that they will never look stupid if they print and it solves their problem, the fact that they've got to fill column inches. They've got to look as though they know what's going on so you find something to tell them. But never lie to them. The day that you lie to them, is your downfall. Better to say that I don't know or I actually know but I can't tell you. But don't lie. Often to say I don't know, is a lie, so best not to say that either, because that can also come back and hurt you. So stay honest. Honesty is the best policy, like in life. And no manual is going to help you. I remember at the communication agency I worked for we used to make a lot of money writing crisis manuals. It's bullshit. Just chuck that thing out the window when it starts and rely on instincts and experience.*

C.4 Conclusion

In summary, judging from the media coverage received, and from the position in which FirstRand is today, the Maharaj crisis at FirstRand was handled admirably. In fact, so successful was it, that Laurie Dippenaar, chief executive of FirstRand, was a contender for the 2005 Deloitte Good

Governance Awards. This success can be ascribed to a policy of transparency, availability and honesty on the part of the spokesperson concerned. This strategy worked favourably even though Dippenaar did not have a significant relationship with the journalists prior to the crisis. The messages to the media were consistent and clear and every step of the process concerning the investigation was communicated to the media. Even when it was not possible to reveal all to the media, the crisis team used the strategy of third party endorsement – they released the full report to credible third parties which helped to still the negative perception that FirstRand was concealing aspects of the report from the media. It was a systematic process followed by the media communication team at FirstRand and they did not deviate from the key messages. Having a healthy respect for the journalists helped to build relationships of cautious trust and credibility between the organisation and the media which served FirstRand well in subsequent crises.

Actual print media coverage of a non-executive director accused of corruption at FirstRand

February – November 2003

National Newspapers:

- Business Day
- Business Report (The Mercury, The Star, The Saturday Cape Argus, The Pretoria News, Cape Times, Sunday Tribute, The Sunday Argus, The Sunday Independent, The Saturday Star and The Weekend Argus.
- Business Times (Sunday Times)

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Shaik paid money to Maharaj

Former transport minister did not declare cash and gifts
Mzilikazi Wa Afrika and Jessica Bezuidenhout

Former Transport Minister Mac Maharaj and his wife received payments and gifts worth more than R500 000 from Durban-based businessman Schabir Shaik, who is under investigation by the Scorpions for his role in the arms deal.

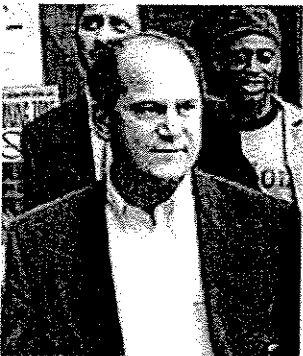


Mac Maharaj

Most of the payments and gifts were given before Maharaj left the Cabinet in 1999.

Under the parliamentary code of conduct, gifts and benefits worth more than R350 received by members, their spouses, companions or dependent children must be declared.

But not one of the gifts or payments is logged in Maharaj's parliamentary register of members' interests.



Schabir Shaik

Shaik, who is the personal financial adviser of Deputy President Jacob Zuma, is the chief executive of Nkobi Holdings and a director of Nkobi Investments.

Nkobi Investments is part of the N3 Toll Road Consortium, which was awarded a R2.5-billion tender to upgrade the road from Johannesburg to Durban by the Department of Transport while Maharaj was the minister.

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An Nkobi Holdings subsidiary, Kobitech, is part of the consortium Prodiba, which won a R265-million contract to produce new credit-card driver's licences.

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Maharaj yesterday declined to comment on the payments or on his relationship with Shaik.

He said: "All contracts awarded by the Department of Transport during my term of office are a matter of public record."

Documents scrutinised by the Sunday Times suggest that six payments totalling R260 000 were made to Maharaj and his wife in the four months after he announced N3 Toll Road Consortium as the preferred bidder.

It is believed that the Scorpions' investigation of Shaik has been extended to include Maharaj and a number of other government officials.

Maharaj said he was unaware of a government investigation but would co-operate if asked to do so.

Sipho Ngwema, spokesman for the National Directorate of Public Prosecutions, said: "Our policy is not to comment on an ongoing investigation. There is an ongoing probe against Schabir Shaik and we cannot comment on the status of the probe or any of those involved."

Documents, including bank statements, invoices, financial records and faxes show that Shaik or his companies paid a total of R525 352 to Maharaj, his wife, Zarina, or her company, Flisan Investments.

The Sunday Times has established that:

- R50 000 was deposited into Maharaj's Absa cheque account on December 15 1997 by Kobifin, the finance division of Nkobi Holdings; and
- R25 000 was deposited into Maharaj's Absa cheque account by S Shaik on May 25 1998.

Notes on Shaik's financial records refer to payments made to Maharaj, his wife and her company. Maharaj declined to say if he received the money from Shaik or his companies.

Among the payments recorded in the notes were:

- R25 000 on May 10 1998;
- R25 000 on May 30 1998;

- R50 000 on August 17 1998;
- R55 000 on August 19 1998;
- R75 000 on September 4 1998;
- R10 000 on October 9 1998;
- R25 000 on November 20 1998 as a "social facilitation cost";
- R20 000 on November 24 1998;
- R25 000 on December 18 1998; and
- R13 157 on February 28 1999.

The notes also detail payments of R60 000 to Maharaj or his wife after he stepped down from the Cabinet in June 1999. They were made between October 15 1999 and March 1 2000.

Two payments, of R50 000 and R55 000, were made within a week of the N3 announcement.

In addition to the payments, an invoice shows that Shaik, through Nkobi Holdings, paid R49 857 for computers installed at Maharaj's home in Hyde Park, Johannesburg, in 1997.

An Nkobi Holdings official facilitated payment of import duties totalling R18 338 for a marble-top table imported from India by Maharaj's wife.

Shaik also arranged a trip to Disneyland for Maharaj and his family in July 1996.

Asked to comment, Shaik said: "I don't want to answer any of your questions. Tell the Scorpions to ask me those questions in court or ask Mac Maharaj to answer for himself."

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Mac Maharaj takes leave of absence

By Margie Inggs

Durban - FirstRand had agreed to give director Mac Maharaj (pictured) leave of absence for three months with immediate effect from various group boards to enable him to focus on recent allegations, chief executive Laurie Dippenaar said yesterday.

Maharaj had offered to either resign or take leave of absence to avoid possible embarrassment to the FirstRand Group following allegations that he had received cash and gifts that he did not declare when he was the minister of transport.

Dippenaar said a meeting of the FirstRand executive had been called on Monday at Maharaj's request to enable him to outline the process he intended following to address the issues raised by the report.

"The group has accepted his explanations and fully supports the transparent process he has indicated he intends following to deal with the accusations," Dippenaar said.

"In reaching a decision, the executives have tried to strike a balance between good corporate governance and not creating presumption of guilt through our actions." - Margie Inggs

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2003/02/21 12:00:00 AM

Maharaj takes time out from FirstRand

Rob Rose

ALTHOUGH FirstRand director Mac Maharaj has still not broken his silence on allegations that he received irregular payments from a Durban businessman while he was transport minister, the former politician was granted a three-month leave of absence from the banking group yesterday, while he deals with the claims.

Maharaj declined to comment yesterday on weekend reports that he had accepted gifts worth more than R500000 from Durban businessman Schabir Shaik, the bulk of it during his stint as transport minister.

On Monday, Maharaj offered to resign from the positions he holds on the board of three First

Rand companies in order to save the group from embarrassment. If the allegations remain unresolved after the three months, they appear likely to spell the end of Maharaj's tenure at FirstRand.

The payments allegedly paid to Maharaj and his wife were never declared in the parliamentary registrar of members interests, as stipulated by Parliament's code of conduct.

The allegations that the payments were irregular stem from the fact that Shaik was a chief director of Nkobi Investments, which formed part of the N3 Toll Road Consortium that was granted a R2,5bn tender to upgrade the toll road between Johannesburg and Durban.

Shaik is also being investigated in connection with government's controversial arms deal.

The FirstRand boards met over the past three days to consider Maharaj's offer to resign. CEO Laurie Dippenaar said yesterday that Maharaj had been granted a three-month leave of absence as lawyers said "an indefinite leave of absence was not an option".

"After the three months, we're not likely to extend that. If the issue is unresolved by then, then we will accept his resignation," Dippenaar said. But he said the likelihood of Maharaj's problems not being resolved by then were slim.

"We will monitor the situation on an ongoing basis Should there be any substantive reason to revise the decision, a statement will be made accordingly," FirstRand said.

Although the former minister has not said a word publicly in his defence, he has offered an explanation to the FirstRand board. "We accepted his assurances and explanations at face

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2003/08/08 12:00:00 AM

Why FirstRand must release its report on Maharaj

With Promotion of Access to Information Act as much information as possible must be available on request

Rob Rose

THERE is every reason for FirstRand to release to the public its Deloitte & Touche report on irregularities allegedly committed by Mac Maharaj.

The Maharaj saga emerged publicly in February with banner headlines in the Sunday Times proclaiming that Mac Maharaj, highest-paid nonexecutive director of the FirstRand banking group and former transport minister, received more than R500000 from Schabir Shaik, who was implicated in the arms deal in 1998.

Soon after deposits were allegedly made, Shaik's Nkobi Holdings was part of the consortium that won the lucrative contract to upgrade the N3 toll road between Johannesburg and Durban, a deal funded partly by FirstRand subsidiary Rand Merchant Bank (RMB).

After the news broke, FirstRand vetoed Maharaj's offer to quit and opted for its own investigation of the allegations. Last week, five months later, the report — prepared jointly by auditing firm Deloitte & Touche and attorneys Hofmeyr Herbstein & Ginwala — was completed.

Maharaj was asked to respond to the report, which he promptly did. Now the bank says it will make an announcement on Maharaj next week.

But chairman GT Ferreira says the full report will not be released for two reasons. "Firstly, it contains some information about individuals and organisations that is not in the public domain. Secondly, the Scorpions are still undertaking their own investigation and we don't think it would be appropriate to make it available in its entirety," he says.

These may be valid arguments, but there are equally compelling counter-arguments. On the first issue, the matter has already been thrust into the public domain by the biggest newspaper in the country.

And, as we have witnessed with other such scandals, debate will rage on in the press whether or not the report is released — resplendent with all the innuendo and dark suspicion that now dogs Deputy President Jacob Zuma.

FirstRand's report will probably be a sober and rational contribution to the debate,

providing a context in which the public can assess the veracity of charges against Maharaj.

On the issue of involving other parties, some would say that if they were party to this mess then transparency dictates that they be named. If not, one could excise or “black out” references to these third parties. One could, in fact, do the same to any “sensitive” areas that may jeopardise the Scorpions investigation.

A key player who supports a public release of the report is Shaik himself. “I think this ought to be made public simply because the whole scenario has already been made public and the facts should now be known,” he says.

The way Shaik explains it, he paid R350000 to Maharaj’s wife, Zarina, for her services as a consultant to his company over four years, not R500000 as alleged. Shaik also says he paid Maharaj’s R15000 Disneyland bill, but this was because his US business partner asked him to, and he did not want to jeopardise this budding business relationship. Shaik says he is still under the impression that Maharaj paid the US hotel bill, and this hotel bill was probably paid twice.

“I’m a businessman, and my name has been linked to that already in public,” he says. Even if the FirstRand report is not made public, he says, he will make his version public.

Shaik says that although he has not seen the Deloitte & Touche report, he fully expects Maharaj’s name to be cleared — along with his own.

“Undoubtedly the report will exonerate Mac. If it doesn’t clear him I would have serious concerns about it,” he says.

This underlines an important argument in favour of the public release of the report: anything less than full disclosure will foster rumours and speculation about hidden agendas and the “real findings”.

He has a point. The decision not to release the KPMG section seven bank report on Saambou’s demise has given rise to dark muttering about plots and double-agendas.

University of Witwatersrand professor of journalism Anton Harber says that FirstRand “will never be able to clear the air for either Mac (Maharaj) or themselves unless they air this fully in public”.

Richard Calland, head of Idasa’s Right to Know programme, agrees, saying it is “very important” for the Deloitte & Touche report to be released. “There certainly is public interest in this matter considering Maharaj’s position as the (former) minister of transport, so that would be an argument in favour of releasing it.”

But he points out that, because FirstRand’s investigation gave rise to the report, releasing it will be a strategic choice for the banking group to make unless someone requests its release under the Promotion of Access to Information Act.

Calland reiterates Harber’s point that when information of this nature is kept hidden it tends to encourage more rumour and speculation, which is already running rampant in the Maharaj case.

The Freedom of Expression Institute believes that to withhold the report would go “against the grain of transparency”. Media policy research head at the institute, Console Tleane, says that while the institute respects FirstRand’s view that the release of the report might affect

the Scorpions' investigation, the "public interest should supersede any other interest that might be at play in this case".

"The Maharaj case has now taken the form of a public-interest matter in the sense that it allegedly involves instances of possible use of public funds. For this reason, the case for making the public aware of what was found out, even if investigations are still to be concluded, is very strong," Tleane says.

FirstRand has said the report also dealt with the group's role in the N3 toll road award. The group was one of the lead financiers to the consortium that included Shaik's company. In addition, the head of the National Roads Agency, which helped decide the contract, was Barry Adams, also a FirstRand nonexecutive director.

While indications are that FirstRand was found not to have an untenable conflict of interest, a public release of the report would cut short any speculation on this front.

So what about the need to protect "third parties" named in the report?

Even though a strong case can be made for naming parties to the saga, a decision to keep their identities secret would not be an insurmountable hurdle. As Harber notes: "There may be a need to protect third parties, but there are ways to make this public while doing that."

One imagines FW de Klerk and big black patches covering words in the truth commission's report. While not ideal, this kind of compromise would allow some kind of public transparency that would muffle often misplaced speculation.

Importantly, the new Promotion of Access to Information Act makes a distinction between information that can be exempt from public release and information that can be revealed.

So if FirstRand was to get a request to release the document, and decide that certain of the details qualify for an exemption, it still has a duty to release as much information as possible — setting the stage for at least certain parts of the report to be aired.

Shaik says: "The truth must come out. For a million and one reasons, the truth must come out."

What is clear is that something will indeed come out — be it scurrilous speculation or the report itself.

FirstRand has an opportunity to decide where this axe will fall.

Rose is financial services correspondent.



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FirstRand commissions Maharaj inquiry

By Ann Crotty

Johannesburg - FirstRand bank has appointed law firm Hofmeyr, Herbstein & Gihwala to conduct an independent inquiry into allegations recently made against FirstRand director and former minister of transport Mac Maharaj.

Laurie Dippenaar, the chief executive of FirstRand, yesterday said the inquiry would determine whether allegations in an article in the Sunday Times last month had substance.

The inquiry would look at allegations regarding the actions of Maharaj during his tenure as minister of transport and a breach of parliamentary disclosure policy on the receipt of gifts and benefits.

Dippenaar said the findings of the inquiry would be presented at a FirstRand board meeting scheduled for May 16.

The findings would also be made available to the SA Reserve Bank and the Financial Services Board, which have both endorsed the procedure.

Last month FirstRand granted Maharaj three months' leave after he offered to resign.

Dippenaar said: "As stated at the outset, we are seeking to eliminate uncertainty regarding the matter in an objective and transparent manner, while abiding by the principles of due process and sound corporate governance."

Meanwhile, the Durban high court yesterday ruled that FirstRand's action involving key figures in the 417 inquiry into the Retail Apparel Group (RAG) would be heard on April 28 and 29.

Last month FirstRand filed papers with the court in which it itemised serious concerns about the manner in which the 417 inquiry was constituted and conducted by the master of the Pretoria high court, Leon Lategan.

In the papers before the court FirstRand alleges that the motive of the 417 inquiry is questionable and says it is concerned that the inquiry is being pursued at the insistence of liquidator Enver Motala and not Lategan.

The actions of FirstRand, RAG's major bank, have come under criticism during much of the questioning of witnesses.

Last month hostility between FirstRand and Motala surfaced after he accused FirstRand of trying to mislead the public with claims that the inquiry cost R300 000 a day.

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FirstRand extends Maharaj's leave

By Margie Inggis

Durban - FirstRand had agreed to extend Mac Maharaj's leave of absence for a further two months while Deloitte & Touche reviewed the independent inquiry conducted by attorneys Hofmeyr Herbststein & Gihwala, Laurie Dippenaar, FirstRand's chief executive, said yesterday.

Maharaj was given leave of absence in February for three months to allow him to fully focus on efforts to clear his name.

A director of FirstRand and FirstRand Holdings, as well as a member of the Discovery Group board, Maharaj was released from his duties after the Sunday Times published an article alleging that he and his wife had received payments and gifts worth more than R500 000 while he was still minister of transport.

Under the parliamentary code of conduct, gifts and benefits worth more than R350 must be declared. None of the alleged gifts were logged in Maharaj's parliamentary register of members' interests.

The inquiry was launched to independently investigate the allegations and to assess the evidence on which they were based.

"Had any evidence been found that disqualified Maharaj from board appointments, the Financial Services Board and Reserve Bank would have been informed," Dippenaar said.

The inquiry is expected to be finalised within about six weeks, following which decisions would be made over Maharaj's status.

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FirstRand will report on Maharaj dealings today

By Edward West

Cape Town - FirstRand Bank Holdings was expected to make an announcement today concerning the allegations and the possible effects to the group of its dealings with Mac Maharaj, the former transport minister and a director of FirstRand and Discovery Group, a spokesperson for the bank said yesterday.

In February Maharaj took a leave of absence from FirstRand after newspaper reports alleged that he and his wife had accepted gifts and payments of more than R500 000 from a company controlled by former ANC fundraiser Shabir Shaik, while Maharaj was still the minister of transport. The gifts and payments were not listed, as required by law, in the register of members' interests at parliament.

Maharaj's leave of absence was then extended by another two months while auditors Deloitte & Touche reviewed an independent inquiry into Maharaj's involvement by attorneys Hofmeyer Herbstein & Gihwala.

Maharaj's department reportedly awarded substantial contracts, among them the N3 toll road contract in which FirstRand was involved as funder, during the time Maharaj allegedly received the gifts.

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FirstRand won't duck Maharaj report

By Edward West

Cape Town - A four-month independent inquiry into allegations of corruption against Mac Maharaj, a FirstRand non-executive director and former transport minister, has been concluded.

However, a decision on the report, such as whether Maharaj should stay on the group's board, will have to wait a little longer.

The inquiry, which produced a report of over 200 pages that was handed to the bank's board on Wednesday, was conducted by attorneys Hofmeyr Herbstein & Gihwala and accountancy firm Deloitte & Touche.

The inquiry followed a Sunday Times article on February 16 in which it was alleged that Maharaj and his wife had accepted gifts and payments of more than R500 000 from a company controlled by former ANC fundraiser Schabir Shaik, brother to the government's chief arms procurer, Chippy Shaik. Maharaj was minister of transport at the time.

The alleged payments were not listed in the register of members' interests at parliament.

In February Maharaj took a leave of absence from FirstRand. After two months the inquiry was extended, ostensibly while auditors Deloitte & Touche reviewed the report by Hofmeyr Herbstein & Gihwala.

In its announcement of May 18, FirstRand undertook to reach a final conclusion during July.

The final report, however, took longer than expected to complete, mainly because Schabir Shaik apparently only granted the inquiry team an interview last Friday.

The final report on the investigation was completed on Monday and was submitted to the Reserve Bank and Financial Services Board on Tuesday. It was discussed by the FirstRand board at a special meeting on Wednesday.

"The board is allowing Maharaj to make a submission responding to the final report. [He] has undertaken to submit a response within seven days, and the board expects to announce a decision shortly thereafter," FirstRand said in a statement yesterday.

A FirstRand spokesperson said that, while the actual report was not expected to be made public, "we won't duck it", and the board would react promptly to the recommendations.

The report contained information about organisations and people which was "not in the public domain" and the Scorpions were still investigating, the bank said.

Since the corruption allegations were made against Maharaj, more questions have been raised about the amount of work FirstRand has received from the department of transport.

When Maharaj allegedly received the gifts in 1999, his department awarded contracts valued at R2.1 billion for the now complete N3 toll road.

FirstRand and Sumitomo Bank were co-funders of the project. Schabir Shaik's infrastructure business, Kobi-Infrastructure, was a participant in the contract.

FirstRand acted as debt arranger on the project. It underwrote some R800 million of funding, all of which it sold down.

There remains an outstanding project risk guarantee with the European investment

Bank estimated at about R305 million.

There was no exposure to FirstRand on these arrangements, the spokesperson said.

Apart from Maharaj, FirstRand has other links with the transport department. These include Khehla Shubane, a non-executive director of FirstRand who is also non-executive chairman of the eight-member National Roads Agency board. FirstRand non-executive director Barry Adams has also held a seat on that board.

According to FirstRand's 2002 annual report, Ketso Gordhan, the former transport director-general, is a director at FirstRand's insurance arm, Momentum Group.

Achmed Vahed, a non-executive director of FirstRand Bank Holdings, is an in-law to the Shaiks.

GT Ferreira, the chairman of FirstRand, said he was confident no undue influence had been used to obtain toll road contracts and, in fact, the group had lost most of the toll road funding business it had bid for.

FirstRand, for example, lost bids to fund the N4 Maputo and N4 Bakwena toll road contracts.

FirstRand had a R126 million loan exposure to the winning Investec funding consortium on the N4 Maputo and another R200 million funding loan to Investec on the N4 Bakwena toll road.

These loans were, however, tiny in relation to the total contract value, the spokesperson said.

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Shaik, Maharaj answer corruption allegations

By Edward West

Cape Town - Mac Maharaj, the former transport minister, has responded to an audit report detailing alleged payments and gifts from businessman Schabir Shaik.

Shaik has, however, claimed the payments were for Zarina Maharaj, the former minister's wife, for services rendered as a consultant on gender equality to Shaik's company for four years.

After receiving the report last week of an independent inquiry, FirstRand gave Maharaj, a non-executive director at the banking group, a week to respond to the findings. The deadline was yesterday. FirstRand has yet to detail the outcome of its report or the response from Maharaj.

The four-month inquiry by attorneys Hofmeyr Herbststein & Gihwala and auditing firm Deloitte & Touche was prompted by media reports alleging that Shaik had made large payments to Maharaj and his wife after the transport ministry awarded lucrative licensing and toll road contracts to companies associated with Shaik.

The audit allegedly includes details of a Maharaj family holiday to Disneyland paid for by Shaik.

Shaik said yesterday he had paid Zarina Maharaj about R300 000 for four years of services as a consultant on gender equality. She had two masters degrees, one of them on gender equality, Shaik said.

Although Shaik's firm, Nkobi Holdings, was already an empowerment company, the addition of black women to his board would have counted as extra points in winning contracts, he said. In addition, Zarina had brought about many changes on gender equality.

Shaik said Maharaj would have had nothing to do with the award of the N3 toll road contract tender, in which Nkobi Holdings was a participant, as this was done by the National Roads Agency.

Shaik said Nkobi Holdings had been awarded only one of the four toll road tenders it had bid for.

Nkobi Holdings was also part of a consortium that lost the contract for the Maputo Corridor to Basil Read and French group Boygues, even though Nkobi was the only empowerment group to bid.

Nkobi Holdings contested the award, but a panel comprising Maharaj, his director-general, the Mozambican transport minister and his director-general did not rule in his favour.

Nkobi Holdings also did not win a contract for the building of the Bakwena Platinum toll road.

Regarding the trip to Disneyland, Shaik said Nkobi had proposed a joint venture with Halliburton, one of the world's largest consulting engineering groups.

Shaik said he had been a friend of Maharaj for many years and had facilitated a meeting between Anwar Wiesa, a professor at the Massachusetts Institute of Technology (MIT) in the US, who was closely involved with Halliburton, and Maharaj's son to conduct an assessment of Maharaj's son's willingness and ability to join MIT.

Maharaj had travelled to the US with his family to see Disneyland. Shaik said Maharaj had paid his hotel bill in cash, but some time after that Halliburton had presented Shaik with a R15 000 hotel bill.

He was convinced Maharaj had in fact paid the bill, Shaik said, but he did not wish

to ruin his budding relationship with Halliburton, so he had paid the bill himself to eliminate the "nuisance value".

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No resignation from Maharaj, says FirstRand

Cape Town - FirstRand, the country's second-largest bank by assets, had received no formal notification from suspended director Mac Maharaj regarding his intention to resign or retain his position at FirstRand, it said yesterday.

The Sunday Independent yesterday quoted Maharaj's wife Zarina as saying he would resign this week.

FirstRand said it had received last Wednesday Maharaj's response to a probe into his affairs.

The bank would convene a board meeting this week, it said, to make a decision about its independent inquiry conducted into Maharaj's affairs and his response.

Maharaj, who is also the former transport minister, is alleged to have accepted gifts from businessman Schabir Shaik in 1998, before he quit his ministerial post.

Shaik's businesses, under Nkobi Holdings, were part of the consortium that won the multibillion-rand N3 toll road contract in 1999, at about the same time Maharaj was alleged to have received the gifts.

FirstRand has said the one toll road contract it did participate in as a lead financier was only a small part of its total portfolio of government-related financing work.

Rand Merchant Bank (RMB), FirstRand's merchant banking arm, has been involved in infrastructure finance and development projects worth R58 billion since 1997.

Marlene Hesketh, the head of RMB's business development unit, said the reason RMB had secured so much work of this kind was that it had become good at it.

In the early days of the new South Africa, RMB engaged with the government in the policy debate on how to raise private sector capital; this led to a good understanding of the process.

Also back in the mid-1990s, RMB took the decision to hire not only traditional financiers and merchant bankers, but also public sector policy experts.

RMB partnered with international banks such as Morgan Grenfell, Goldman Sachs and Sumitomo to learn more about advanced funding techniques as well as international best practice.

RMB developed relationships with international development agencies such as USAid World Bank and AFD/Proparco. These agencies could not fund local development projects without local merchant banking expertise.

Some projects RMB has undertaken include the privatisation of non-core assets belonging to Telkom, the Central Energy Fund and Air Traffic Navigation Services, and the financing and buying of big-ticket assets such as aircraft for SAA, locomotives for Transnet and satellite equipment for Air Traffic Navigation Services.

RMB has participated in bond issues for the Development Bank of Southern Africa and an inflation-linked swap for a government agency; the structuring of municipal loans such as for the City of Cape Town, City of Johannesburg, and eThekweni; and irrigation schemes for the water authorities.

It has also been involved in the construction of hospitals, prisons and roads, such as the Louis Trichardt prison, Albert Luthuli hospital and, most recently, Chapman's Peak. - Edward West and Renée Bonorchis

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Maharaj resigns from FirstRand

Johannesburg - The board of FirstRand on Thursday announced it had accepted the resignation of former transport minister Mac Maharaj as a director.

Maharaj said that given the current emotional debate being publicly waged around his personal affairs, his continued association with FirstRand might lead to further negative publicity for the group.

Maharaj consequently submitted his resignation, which the FirstRand board accepted. FirstRand said it would pay Maharaj R1 091 827, which it said was legally owed to him and comprised pay in lieu of notice, leave pay, and a pro-rata bonus for the year ending 30 June 2003.

Maharaj offered to either resign or take a leave of absence in February when the original allegations appeared in the Sunday Times newspaper. The board of FirstRand felt that to accept his resignation at that point would have led to a presumption of guilt, and therefore granted Maharaj leave of absence.

FirstRand said a report by accountancy firm Deloitte and Touche and attorneys Hofmeyr Herbststein & Gihwala stated that an independent investigative team had found no evidence of corrupt practices by Maharaj while he had been minister of transport.

The investigative team reported that it did not find any evidence in the available information that Maharaj intervened with the process or influenced either the awards of the N3 Toll Road tender or the drivers licence card contract to Shabir Shaik.

The team also did not find any evidence linking payments from Shaik to Maharaj with the award of the tender.

Both Maharaj and Shaik did not dispute that Shaik made payments into bank accounts held by Mr and Mrs Maharaj. It was found that the payments were made on the basis of a consultancy agreement between Shaik and Mrs Maharaj's business, Flisan Investments. – Sapa and Staff Reporter

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No plans to leave business sector

Episode stirs debate over cooling-off period for public officials going private

Rob Rose and Xolani Xundu

ALTHOUGH former transport minister Mac Maharaj has quit the FirstRand board amid controversy over alleged payments made to him by Durban businessman Schabir Shaik, he has no plans to quit the business sector.

Maharaj says his life “won’t end with me leaving FirstRand” — and JSE Securities Exchange SA-listed software specialist Sofline says Maharaj will stay on as a director on its board.

The controversy over Maharaj has re-awoken the debate on whether government employees who head into business after politics should have a “cooling-off period” before they embark on private sector activities.

Maharaj quit as transport minister in 1999 to take up the FirstRand job, saying that despite the absence of rules governing the transition of politicians to the private sector, he would not enter the transport industry.

For Maharaj, however, the allegations have cast a stain on his reputation which unlikely to be removed until the Scorpions decide whether to charge him.

Maharaj said he welcomed the debate on the “swing-door” and the “cooling-off period”.

FirstRand’s subsidiary, Rand Merchant Bank, was one of the major financiers of the N3 toll road project. The contracts were awarded while Maharaj was transport minister.

FirstRand CEO Laurie Dippenaar said a Deloitte & Touche investigating team found nothing to indicate anything of substance in allegations that it won the contract due to Maharaj’s influence. But it sparked debate over whether Maharaj should have joined FirstRand in the first place.

The former minister said there were only a few top banks with enough funds to finance a project on the scale of the N3 toll road project, so FirstRand — one of SA’s big four banks — was likely to get involved in any event.

He also said that the process of deciding on the winning bidders of the project was not under his control.

Maharaj said rules and conventions should be drawn up governing the moving of government officials to the private sector. But when they are put in place, they must not be impossible to implement.

Dippenaar said earlier that the business arena was full of potential conflicts of interest — the trick was to “recognise them and manage them”.

The Democratic Alliance (DA) said that it supported the call for a cooling-off period for cabinet ministers.

DA chief whip Douglas Gibson said he would table a Private Members’ Bill proposing such a period “to prevent the doors of cabinet from turning into a revolving door leading to lucrative business appointments”.

A problem with a blanket cooling-off period is that it prevents departing government officials from earning money until they are allowed to work.

One way of avoiding this was giving them a “restraint” payment when they left government’s employ. FirstRand chairman GT Ferreira pointed out that the prospect of being without a salary during a cooling-off period may deter skilled government officials from taking up a position in the business sector.

This was especially problematic at a time when there was a greater need than before for empowerment partners to help transform the complexion of the private sector.

Despite Maharaj’s previous lack of business acumen, Ferreira said that he had “more than fulfilled” his role as a nonexecutive director with FirstRand.

The former transport minister sat on a number of forums and played a prominent role in the bank to the extent that advocate John Myburgh recommended in his corporate governance review of banks that Maharaj’s status be elevated to that of an executive.

Maharaj had very little involvement in business when he joined FirstRand. He said he earned his first pay cheque only in 1994, when he became transport minister.

But he is skilled at negotiating and arbitration, which is useful in the business sector. Maharaj played a key role in the negotiations that led the way to SA’s first democratic elections.

His skills led to his appointment as commander of Operation Vula, a top secret African National Congress (ANC) mission to establish structures inside SA before it was unbanned in 1990.

Maharaj was in exile for 12 years after serving 12 years in Robben Island, along with ANC stalwarts such as Nelson Mandela, Walter Sisulu and Govan Mbeki.

While the Maharaj case has again highlighted the need to address the “swinging door” between government and business, the business sector would be all the poorer should the skills of former government leaders be placed off-limits to it.

Danger of spillover reignites cooling-off debate

The appointment of former transport minister Mac Maharaj to FirstRand's board of directors soon after leaving government has rekindled the debate on the merits of a cooling-off period before ministers, MPs or senior public servants take up employment in the industry they were dealing with in their portfolios.

The cooling-off period is a rule in other countries. It is meant to prevent a conflict of interest or corruption. An example would be when a senior official leaves government service with inside knowledge that could be used to help a new employer gain government contracts.

Several senior public servants have raised eyebrows by resigning to join a company they had dealt with while in government.

Maharaj yesterday said he was in favour of a cooling-off period but first wanted a debate involving the government, labour and ordinary citizens.

"In 1999, when I left government, I announced I would not join the transport sector for at least six months." He said he had suggested his government colleagues apply the same rule.

But, he said, he could not prescribe the length of the cooling-off period. "Here we are dealing with some people who fought for their entire lives.

"There are members of parliament who have never earned an income and who, on retirement will get a pension of only R2 000 a month. For how long should they have to live on that?"

FirstRand would welcome a debate, said chief executive Laurie Dippenaar. - Edward West and Wiseman Khuzwayo, Johannesburg

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FirstRand won't alter its practices

Johannesburg - The events leading up to the resignation of FirstRand non-executive director Mac Maharaj would not result in the firm reviewing its corporate governance practices.

The group would, however, be more careful in checking directors' interests if those directors came from the government, chairman GT Ferreira said yesterday.

Ferreira said the direct cost of its independent inquiry was about R1 million but, more importantly, it had resulted in negative publicity and had taken up a great deal of executives' time, "not to mention the opportunity cost".

Maharaj resigned yesterday. FirstRand will pay him R1.09 million, comprising pay in lieu of notice, leave pay and a pro rata bonus for the year to June 30.

He was officially appointed to the FirstRand board on September 17 1999, a few months after leaving his post as transport minister. According to FirstRand's last annual report, Maharaj holds no shares. He was paid R541 000 in 2001 and R1.06 million in 2002, making him FirstRand's most highly paid non-executive director. Of the five board meetings in 2002, he missed two.

Ferreira said Maharaj was first introduced to the group by Wendy Lucas-Bull, the head of retail banking at First National Bank, through their joint involvement in Business Against Crime.

"She said he would be a good director. We made enquiries and found he was capable ... had been a good minister so we appointed him non-executive director."

Maharaj had been paid more than other directors because he performed a range of functions, to the extent that the Myburgh commission on corporate governance in the financial services sector had recommended Maharaj be redefined as an executive director.

Maharaj had sat on three statutory boards and four advisory boards. He sat on FirstRand's retail executive committee and its corporate executive committee.

He had also been "intimately" involved in Discovery Health's medical scheme dispute and Lucas-Bull used Maharaj's services to expand into the unbanked sector.

Ferreira said there would always be conflicts of interest in business, especially regarding board appointments, but FirstRand followed established rules and legislation in business to properly manage those conflicts.

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Maharaj lashes out at Scorpions' sting

Johannesburg - A defiant Mac Maharaj, the former transport minister and FirstRand director, yesterday lashed out at the Scorpions, claiming that "someone" in the law enforcement agency was illegally "leaking" information about his financial affairs, causing great suffering to him and his family.

He made his remarks after he was cleared on allegations of bribery and corruption relating to toll road and other state contracts by an investigating team of accountants and lawyers appointed by FirstRand.

Maharaj, who earned R1 million a year as a non-executive director of FirstRand, resigned just before the release of the report yesterday.

The Scorpions have been investigating Maharaj and his relationship with businessman Schabir Shaik for 17 months.

Maharaj said yesterday no criminal charges would be brought against him that could be sustained in a court of law. - Edward West and Wiseman Khuzwayo
He added that he had resigned as he did not want the controversies around him to affect FirstRand.

The five-month inquiry - conducted by auditing firm Deloitte & Touche and attorneys Hofmeyer Herbststein & Gihwala - probed allegations that Maharaj had accepted bribes from Shaik while Maharaj was still minister of transport, and that Shaik had paid for a Maharaj family holiday to the US.

Shaik's business, Nkobi Holdings, is alleged to have benefited by winning lucrative toll road contracts and a driver's licence contract from the department of transport.

The inquiry found Shaik had paid R328 898 to Maharaj's wife Zarina for her services as an empowerment consultant to Nkobi Holdings.

The investigators found that "a number of questions remain unanswered" regarding her consultancy.

The investigators said Maharaj should have declared on the parliamentary register of members' interests the fact that Shaik had paid a hotel bill for the family visit to Disneyland.

Maharaj claims he paid the bill himself and there was nothing to declare on the register.

Maharaj, facing a barrage of hostile questions from the press yesterday, said his and his wife's lives had been hectic after 1994 and it had been difficult to adjust.

He had spent the previous 30 years as a revolutionary who had never earned a proper salary.

This was one reason he had been unable to produce documentary evidence of payments made to his family trust by one of Nkobi's subsidiaries.

He had no immediate plans for the future. Future conflicts of interest in his employment in the private sector seemed unavoidable.

He said he had been asked to re-enter the political arena, but was close to retirement age.

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Shaik coy on R100 000 payment to trust

By Margie Inggs

Durban - Mac Maharaj's close friend, Schabir Shaik, yesterday could not supply details of a mysterious R100 000 payment into the Maharaj family trust in 1996.

The Deloitte & Touche report conducted for FirstRand found that one of the R100 000 deposits into the Milsek Trust had been made by one of the companies in the Nkobi Holdings group.

Shaik could not explain what the payment was for: "We are waiting for the bank records reflecting the transaction to trace the reason for the payment.

"Both the Scorpions and Deloitte & Touche have proof of our requests to the bank but, as much of the information was confiscated by the Scorpions, we have had to request backdated records."

Referring to the Maharaj family trip to Disneyworld in the US, Shaik said he had considered this strategically important as he had wanted to use the opportunity to raise Maharaj's profile to attract investment into South Africa.

"There is a perception by foreign governments, especially European ministers, that African ministers are somewhat less important than First World ministers," he said.

"I saw the trip as an ideal opportunity to introduce Mac as a real minister whose portfolio was important as he was involved in the government's overall vision for infrastructural development ... and had insight into future projects the government was unfolding.

"As this was key to potential investment decisions by engineering firm Brown & Root, I asked the company to assist with arrangements for the family's accommodation and travel in the US."

Shaik said it was not until Maharaj's return that he discovered the meeting had not taken place.

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More questions than answers

FirstRand's guarded report on its investigation into Mac Maharaj's business dealings fails to exonerate the former transport minister

Andre Jurgens, Mzilikazi wa Afrika and Jessica Bezuidenhout

Six months ago the Sunday Times revealed that Durban businessman Schabir Shaik had made a variety of payments to former Transport Minister Mac Maharaj and his wife, Zarina.

On Thursday, Maharaj resigned as a highly paid non-executive director of FirstRand Bank following a four-month independent investigation instigated by the banking group.

FirstRand did not find evidence that Maharaj had influenced the awarding of two major government tenders to companies linked to Shaik.

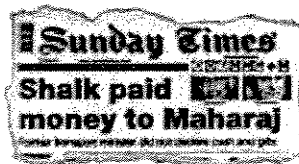
However, the bank confirmed that Shaik did make a number of payments to Maharaj, although it has decided to keep the full dossier on its findings secret. As a result of this secrecy there are a number of crucial questions that remain unanswered.

On February 16 the Sunday Times revealed that:

- Two of Shaik's companies in the Nkobi group were part of consortiums that won contracts to upgrade the N3 toll road and produce new credit-card



Defiant: Mac Maharaj this week quit the FirstRand board Picture: Rayond Preston



Breaking news: How the Sunday Times revealed the story

Date	Invoice	Value	Comments
20 Jan 97	31984	R. 3,027.00	GM4 Cost for Transport
25 Jan 97	32026	R. 162.40	
26 Aug 97	32348	R. 268.50	
13 Aug 97	32342	R. 196.50	
14 Aug 97	32329	R. 27,822.14	Minister Maharaj
14 Aug 97	32341	R. 13,040.00	Minister Maharaj

In black and white: Part of a computer company's 1997 invoice for equipment made out to Nkobi Holdings and referring to 'Minister Maharaj'

drivers' licences;

- Shaik made payments to Maharaj and his wife during and after his term as a minister ;
- Shaik was billed for computers installed at Maharaj's Johannesburg home;
- Shaik arranged a 1996 trip for the Maharaj family to Disney World; and
- Shaik's company was billed for duties on a marble-top table imported from India by Zarina.

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FirstRand's investigation confirmed these facts, but differed with the Sunday Times's reports on the amounts of money involved, and made no mention of the marble table.

FirstRand said it had committed "significant resources" to the investigation, but noted that its investigating team had no power to subpoena witnesses, documents or evidence. The bank's probe hinged on the "co-operation of the persons and entities involved".

THE BANK INQUIRY

PAYMENTS TO MAHARAJ

FirstRand confirmed that Shaik had made payments into the bank accounts of Maharaj and Zarina, but accepted that these were for "consultancy" work by Zarina's company, Flisan Investments.

The bank's team found payments totalling R328 898 as well as R200 000 in a family trust account. The Sunday Times reported payments and gifts in excess of R500 000.

However, the bank released scant detail about the type of consultancy work performed. Flisan and Shaik apparently had only a "verbal" business agreement.

"Although there appears to be information supporting the existence of the consultancy, a number of questions remain unanswered," the bank said.

Questions not answered by the bank's report include:

- Why did Shaik pay Flisan by depositing money into Mac Maharaj's personal bank account?

- How did the bank reach the total of R328 898?

FAMILY TRUST PAYMENTS

Maharaj initially told FirstRand's investigators that his family trust, called the Milsek Trust, had no bank account. Maharaj, through his lawyer, later remembered a bank account that had since been closed.

FirstRand found that two deposits of R100 000 each were made in 1996 into the Milsek account. One of the payments appeared to have been made by a company in the Nkobi group. "Neither party could explain the reason for the accounting entry, or the payment."

Here, too, questions remain unanswered:

- Why did Shaik's company deposit the money?
- Why did Maharaj fail to disclose the payment to Parliament?
- Why did FirstRand not disclose any details of the second R100 000 payment?

COMPUTER EQUIPMENT

Maharaj and Shaik told FirstRand's audit team that Shaik paid only R15 000 for computer equipment installed at Maharaj's Johannesburg home.

The Sunday Times has proof Nkobi was invoiced for R54 104.40, of which R49 857.90 was in respect of "Minister Maharaj".

Shaik said he paid the R15 000 in part settlement of money he owed to Flisan.

FirstRand said: "The [investigation] team did not find corroborative evidence that the amount of R15 000 was actually set off against the debt."

But the Sunday Times has found that the liquidators of the company that supplied the computers, Computers Etc, this year asked a debt-collecting agency to recover another amount of R13 400 from Nkobi Holdings in respect of the Maharaj computers.

The Durban-based liquidating firm, Antrust, confirmed that the claim was submitted to Nkobi based on company invoices. Shaik then told the company to get the money from Maharaj himself.

Questions here include:

- Why were the computer invoices sent to Nkobi?

- Why are there so many discrepancies on the exact amount owed for the Maharaj computers?

DISNEY WORLD TRIP

FirstRand said Maharaj believed he had "paid for the trip himself while Mr Shaik stated that he paid for transport and accommodation to the value of R15 642".

Backing up an earlier Sunday Times story, FirstRand found that Shaik asked the engineering company Brown & Root to help arrange the trip as it was of "strategic importance" to Brown & Root and Nkobi Holdings.

"The hotel bill shows that the accommodation was paid with an American Express card which was found not to be activated whilst the Maharajs paid the sundries," said FirstRand.

"It is clear from the available information that not only did Mr Shaik arrange for the trip to Orlando, but that he, through Nkobi Holdings, ultimately paid for the Maharajs' stay."

FirstRand found that Maharaj should have, but did not, disclose this "substantial gift" to Parliament. Maharaj maintains he did not know that Shaik subsequently paid his bill and as such had no reason to declare this as a gift.

Questions here are:

- Who owned the American Express card ?
- Why did Maharaj this week insist that he had settled the bill with travellers' cheques?
- Or did Disney World's deluxe Polynesian Resort in fact receive a double payment for the Maharajs' holiday?
- Disney World's Specialised Investigations Unit initially offered to look into the matter for the Sunday Times, but later the company said it could only release "guest information" with the permission of Maharaj.

MAHARAJ'S SAA-SPONSORED TRIP

Maharaj, at a press conference announcing his resignation, said his trip to the US was sponsored by South African Airways.

Maharaj, in a 1996 parliamentary declaration of members' interests, said SAA sponsored his trip from London to Atlanta (return) to attend the opening of the 1996 Olympics . No mention was made of a flight to Disney World in Orlando, Florida.

The question is:

- Who paid for the Maharajs to fly to Orlando, where they stayed from July 13 to 17 1996, before undertaking the SAA-sponsored trip to Atlanta?

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Mac's hit the road, his integrity still intact, despite the media's penchant for hype

Sometimes I feel I am living in another world, not in South Africa. Although I'm a media practitioner, I'm beginning to believe that journalists rightly deserve to be the second most despised species by the public after politicians.

On Thursday, former transport minister Mac Maharaj held a press conference to announce his resignation as a non-executive director of FirstRand following the publication of the firm's abridged report of an inquiry that cleared him of bribery and corruption allegations.

I happened to have been at the same conference with my colleague, Edward West. That is why I was surprised when I read newspaper reports on Friday that screamed that Maharaj's political career of 50 years was over because of the FirstRand report.

Maharaj had made it clear to all and sundry at the press conference that he had retired in 1999 and had no intention of returning to politics because he was too old.

Well, a fact or two should not stand in the way of a good story. Should it?

The omission of Maharaj's statement conveniently, purposely and even maliciously led to more copy.

Political commentators were later quoted as confirming that it was really over with Maharaj's political career. Even opposition parties were quoted as saying the same.

Of course they would, wouldn't they?

This brings me to the second issue: the two R100 000 payments into the Maharaj family trust.

One was from a company owned by Schabir Shaik, for Mac's wife, Zarina Maharaj's, consultancy service for gender equality services rendered. It is not clear what or who the other payment was from, according to the FirstRand report.

The fact that Shaik is being investigated by the elite investigations unit, the Scorpions, has no bearing on the fact that she worked for his company, Nkobi Holdings.

The explanation given by Maharaj about the two payments, particularly the second one, is not convincing but not implausible.

He does not deny the payments. He says that he thinks he knows what they were for but does not want to speculate until he has received statements from his bank.

Rightly so, because the press daggers are out for him. Until he has authenticated his belief, he has a right to remain silent on the matter.

I do not know what the hullabaloo is all about regarding the payment of his R15 000 hotel bill in Orlando, US. Maharaj says that he settled the bill himself. Period.

If Shaik and his US counterparts double paid I would have thought that was their problem.

I doubt if any of Maharaj's articulate accusers have even bothered to pick up the phone and talk to Brown & Root in the US.

And anyway, public opinion is on Maharaj's side.

I watched the Interface programme on SABC 3 on Thursday night and the vast majority of the SMS messages from the viewers supported Maharaj and cleared him of any wrongdoing.

The adversarial behaviour of the media has made me reaffirm my faith in the honesty of Maharaj, whom I have known since 1978 in Lusaka.

I stopped over there for a week on my way to exile in Europe. Maharaj, who was then secretary for the ANC underground, was assigned to be my political mentor - that is to ground me in ANC strategy and tactics as I was going to a hostile territory.

Not only did he teach me, but he also instilled in me the importance of honesty in politics.

I think Maharaj might have a thing or two to teach those who are charging him with dishonesty.

What is being dishonest about not declaring payment of a hotel bill in the register of members' interests when in fact it was paid for by government money?

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Cool off before cashing in

Now that Mac Maharaj has packed his bags at FirstRand and left with his million-rand payoff to protect the bank's good name, we are getting hot under the collar about cooling-off periods for politicians and senior civil servants who cash in on their public service by taking lucrative jobs in related fields in the private sector.

Even if there is no impropriety, no payback for services rendered or contacts arranged, it is difficult to hold up these cosy arrangements as innocent.

Cooling-off periods are not a new idea. Many other countries, including the often-maligned Nigeria, have tried to discourage the always unseemly and often downright corrupt practice of individuals exploiting the knowledge and contacts they acquired in public service.

This is in everybody's interest, not least the individuals concerned. Being forced to stay out of harm's way while a decent period elapses would save them the burden of constantly having to prove, or trying to prove, their innocence.

There are sound reasons why enforcing a code of unquestionable probity on South African politicians and public officials may be difficult. Many parliamentarians and leading lights in the civil service had no formal employment before 1994 and have no reserves, other than their knowledge and contacts, to sustain financially them outside of politics. But as we report today politicians are "terribly opposed" to the very suggestion of any form of control on them.

With this attitude they let both themselves and the country down. With so many examples of abuse of public office they cannot expect the public trust to be given to them like a blank cheque.

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Maharaj's statement after the bank's inquiry

"From the outset I have motivated for and fully co-operated with the FirstRand inquiry.

I welcome the board's decision, which accepts that the investigative team did not find any evidence to substantiate allegations of corruption and did not find any evidence linking payments from Mr [Schabir] Shaik to Mr [Mac] and Mrs [Zarina] Maharaj to the awarding of the two contracts.

This was the most serious and primary allegation against me that was repeatedly insinuated by the Sunday Times and taken up by the most of the media. I repeat that I have not been involved in any bribery and corruption.

The board of FirstRand has not pronounced on the rest of the findings of the investigation team. I, however, have no intention of quibbling over them.

I have decided to resign from all my positions in the FirstRand group because I believe that it is not necessary for FirstRand to have all the controversies around me hanging around the company. The entire matter arises from actions I took long before I joined FirstRand.

I also believe that much of the controversy, misrepresentation and slander that has arisen is taking a toll on my family and me. In our own interest, therefore, it is also appropriate that I resign. This is an amicable parting with FirstRand.

In the course of the inquiry, each of the payments alleged to have been made to my wife and me had to be scrupulously examined. We went further and allowed the inquiry to examine the relevant bank account statements from 1996 to 2000, and the inquiry has recorded that it is

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"reasonably satisfied that there are no other deposits from Nkobi [Holdings] or Mr Shaik. . ."

With regard to payments received, I would like to summarise the outcome. The Sunday Times alleged 14 specific payments totalling just over R500 000. Five of these were confirmed, there was no evidence to confirm another five and in four instances the payments were received but the amount involved in each instance was less than that alleged.

Furthermore. . .the investigation found record of two other payments that were received but did not feature in the Sunday Times allegations. This gives a total of R328 898 received by my wife for consultancy work done for Mr Shaik and his group of companies. Finally, included in the payments received is an amount of R15 642 [for] the cost of hotel accommodation in Orlando, US, that Mr Shaik paid to his business counterparts Brown & Roots.

My reservations fall into two categories. Firstly, I registered strong reservations about the inquiry process as it developed. But I do not wish to pursue the matter any further here.

Secondly, I would draw attention to the finding of breach of Parliamentary protocol in relation to the one payment of R15 642. . . To the best of my recollection I believe I paid the hotel. In this regard I also accept that Mr Shaik paid Brown & Root but I contend that I was not aware of this until the inquiry was held and, therefore, did not declare it as a 'gift' in the Parliamentary register for 1996. Accordingly, I am of the view that I did not breach the code.

When the Sunday Times carried its story on February 16 2003, the Scorpions were not prepared to state that they were carrying out an investigation about me.

I motivated for and co-operated fully with the FirstRand inquiry even when I began to hold reservations.

In the middle of June 2003 the Scorpions called on my wife and me to give evidence and we have co-operated with their investigation.

On June 19-20 2003, when we gave the evidence to the Scorpions, I was informed that they had commenced their investigation in April 2002 and that they were on target to complete [it] by the end of June.

On the occasion, I recorded my concern with the Scorpions that the documents on which Sunday Times based its report of the February 16 2003 could only have come from the Scorpions and I would hold the Scorpions responsible should any further leaks occur.

Since then I have come across further indicators of leaks to the media by the Scorpions.

I fully support the need for co-operation with the state investigating agencies, but I cannot accept that anyone in the Scorpions should be leaking information to the public and media.

Such leaks seriously prejudice the persons being investigated and undermine the credibility of the investigation agency. The slander that has been visited upon me by such leaks has been harmful and deeply hurtful to my family and me. This is unacceptable in the democratic, just and constitutionally ordered society. . .

I remain firm in my view that there are no criminal charges that could be made and sustained against me."

- Mac Maharaj

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2003/08/18 12:00:00 AM

FIRSTRAND has done itself and Mac Maharaj no favours with a limp-wristed inquiry into allegations that Maharaj, who resigned as a FirstRand director last week, took money illicitly from Schabir Shaik. I understand it might have been impossible for FirstRand to release the full report from the auditors and lawyers it paid to do an investigation. But, surely, the edited version it did publish did not have so crushingly to expose the weaknesses of the probe?

I am particularly interested in a passage in the published version which deals with payments from Shaik of some R328000 to Flisan Investments, a company owned by Mrs Maharaj. Apparently these were in return for "consulting" services rendered by Mrs Maharaj to Shaik or his companies on gender issues.

FirstRand says its probe found:

"1) There was some form of consultancy agreement between Mr Shaik and Mrs Maharaj.

"2) The extent of the agreement cannot be determined; nor is it possible to express an opinion on whether Mr Shaik indeed received value for money (in terms of the nature and value of Mrs Maharaj's deliverables).

"3) Due to lack of corroborative evidence, it is not possible to find that the reason for all payments (and the off-sets) was in fact service in terms of the consultancy agreement.

"4) The agreement does not appear to have been a formal, arms-length agreement between two businesses."

FirstRand says the Maharaj couple co-operated fully with their expensive investigation but, if so, why should it be so difficult to discover whether or not Mrs Maharaj actually performed the said consulting services? Surely she produced some written work? Could we see a copy of a report she might have prepared for Mr Shaik? If Mr Shaik no longer has one, Mrs Maharaj may have a copy on a floppy disk or a hard drive. Surely no sane person, having done work worth R328000, would trash it? Most consultants would have hawked the same reports to other firms.

Did First Rand's investigators ask Mrs Maharaj for samples of her consulting work for Mr Shaik? If they did, what did she say? And for what earthly reason could her answer not have been made public?

I remember, watching all of this, how the Socialist government in Spain was finally toppled in 1996 after 14 years in power. The party started funding itself through the creation of bogus consulting firms. This allowed some big European companies to "pay" consultants for non-existent reports. The money funded the party and the firms all got big Spanish

government contracts. They were found out by journalists and lost support.

I see attempts are now being made to use Cyril Ramaphosa to mediate between Scorpions chief Bulelani Ngcuka, Deputy President Jacob Zuma and Maharaj. This is a political, African National Congress, affair, designed to cool tensions that threaten party unity. It cannot be about the truth. That is for the courts. Unfortunately it appears Ngcuka is battling to bring a case against Zuma for allegedly soliciting a bribe, from one of the lucky winners in the arms tender a few years ago. This is because the company that allegedly offered the bribe, Thomson of France (now Thales), refuses to explain itself in a South African court.

Ramaphosa will find fertile ground for mediation. Ngcuka must save his reputation if he is unable to bring his investigations to court. Zuma and Maharaj, who seek to divert the spotlight away from themselves, are trashing the Scorpions (Ngcuka), for supposedly leaking details of their various investigations to the press, and know their insinuations are either untrue or exaggerated. And they all have some hideous dirt on each other. But the public doesn't care about the personal stuff. The public cares about the money.



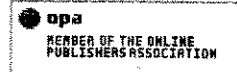
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FirstRand will show solid growth despite year of controversy

By Edward West

After a controversial year, FirstRand, one of the big four banks, should please shareholders when it reports its results tomorrow for the year to June 2003. At the half-year stage it reported a 24 percent rise in core operating earnings to 43.3c a share.

And other than the effect of the stronger rand on offshore income - which is not likely to be much - earnings growth in the second half should be in line with the first, if not slightly better.

Falling interest rates, lower inflation and a buoyant housing market make prospects for next year look particularly rosy.

The home loan business has grown substantially, with the acquisition last year of the NBS book and 65 percent of the Saambou home loans book. By now most of the integration will be completed and costs will have been brought down. In addition, it has been a good year for retail banking in general.

FirstRand sold 30 percent of its employee benefits operations to the Mineworkers Investment Company in a R100 million empowerment deal last week, possibly signalling the beginning of other moves towards shareholder black empowerment.

Last year's decline in embedded value and new business growth in Momentum and Discovery has no doubt been arrested, and capital is now being ploughed in for offshore expansion plans.

FirstRand had a controversial year. There are still questions about the outcome of a tax dispute with the Irish government relating to former UK banking subsidiary Ansbacher Group.

There was also the inquiry and resignation of former non-executive director Mac Maharaj, which raised questions about the so-called swing-door policy and the employment of key former government officials to top posts in business.

The Maharaj issue raised questions about the racial and gender composition of the FirstRand Group and FirstRand Bank boards, something the group is working on at present.

Involvement in the RAG liquidation was also questioned. These are all high-profile issues. They are not really material to the bottom line, but take up a great deal of management time and can do the bank's reputation no good.

Fortunately, the group has tackled these issues openly. Still, it must be quite stressful being a FirstRand executive these days.

Today, however, the corporate week kicks off with an extraordinary shareholder meeting to be held at EC-Hold, following agitation by minorities headed by Cycad Financial Holdings and Peregrine.

Shareholders want a forensic audit of the transactions between MGX and its subsidiary EC-Hold.

The meeting is being held to obtain a mandate to appoint auditors Deloitte & Touche.

A major concern is that MGX has repeatedly flouted an order by the Securities Regulation Panel to raise the amount it will pay to buy out minority shareholders in EC-Hold. Looks like a serious bun fight is brewing.

On Wednesday New Africa Capital (NAC) reports its results for the six months to

June.

Unlike FirstRand, NAC's insurance new business inflows should be a lot stronger than its peers, because it trawls the lower end of the market, while the larger insurers tend to tap the middle- and upper-income groups.

The strength of the lower end of the insurance market has been reflected in African Life's results.

NAC put out a trading statement at the end of March, reporting a first-quarter rise of 33 percent in recurring premiums after a particularly strong boost in the employee benefits division, while there was an overall fall of 11 percent in single premium business.

New single premium growth has not featured much among other insurers' results either of late.

Weak global equity markets and the rand's strength will hurt NAC's results, but new business production should offset the effects of lower asset values on fee income.

Expect some fund inflows at Metropolitan Asset Management, a flat performance from unit trusts - because investors are still afraid of throwing money into equities - and a stronger performance from the healthcare operations.

Analysts will be watching for some effect of cost cuts on new business margins.

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2003/09/17 12:00:00 AM

Retail segment drives FirstRand's profit

Controversies have no effect on operations, with corporate and newer businesses also showing growth

Hilary Joffe

Financial Services Editor

BANKING and insurance group FirstRand raised core headline earnings 23% to R5,4bn in the year to June, as it benefited from strong profit growth in its retail and corporate banking businesses as well as in newer businesses including E-Bucks, RMB Private Bank, Outsurance and Discovery.

However, foreign currency translation losses because of the rand's strength saw headline earnings decline 4% on the old accounting basis before the effect of new accounting standard AC133. On the AC133 basis, headline earnings were up 3% while core earnings rose 30%.

The results come after a year in which the group was embroiled in a series of high-profile controversies, over its exposure to liquidations such as RAG as well as its handling of corruption allegations against former board member Mac Maharaj.

These did not affect FirstRand's operations, though the group is still dealing with one controversy — over its UK private bank Ansbacher, which is being investigated by the Irish tax authorities for alleged tax fraud in the period before FirstRand bought it. Ansbacher, which generated a R112m loss for the group in the year to June, had produced “sub-optimal” returns and did not fit into the group, FirstRand CE Laurie Dippenaar said.

The group, which is still in talks with the Irish tax authorities, will put Ansbacher UK up for sale at the end of this month.

FirstRand's 23% core earnings growth for the year compares with rival Standard Bank's 22% earnings growth for the six months to June and Nedcor's 29% core earnings decline for that period.

FirstRand also lays claim to having the highest exposure to Africa of all the big four banks except Standard — though Standard derived 9,2% of its earnings from its operations in 17 African countries outside SA, FirstRand is not far behind, with its banking operations in Botswana, Namibia and Swaziland contributing 7,3% of the group's earnings in the year to June.

FirstRand is looking to establish a physical presence in certain of the African countries where its corporate and investment bankers are already doing "briefcase banking". It could start grassroots operations or make acquisitions, Dippenaar said.

However, SA continues to dominate the group's earnings, contributing 91%, with international earnings from outside Africa standing at only 2% of the group's total.

FirstRand Banking continues to be by far the largest contributor to the group's profit, raising its contribution from 76% to 78% as it grew earnings 26% (pre-AC133) or 35% (post-AC133).

The group's insurance operations showed earnings growth of 10% despite tough investment markets, going against the trend in the industry which has seen most life assurers' earnings decline in poor equity markets.

But it was the group's retail banking operations that were the biggest driver of FirstRand's profit growth. The retail segment, which includes First National Bank retail in SA and Africa, as well as vehicle financier Wesbank and insurers Outsurance and First Link, grew pretax profits 31,8% to R3,3bn.

The retail bank showed strong organic growth in assets and deposits, growing its market share in areas such as credit cards, vehicle finance and home loans, and benefited from its acquisitions of the Saambou and NBS home loan books.

High interest rates also helped, increasing returns on the bank's capital and retail deposits. FirstRand has hedged its banking capital and part of its retail deposit book to mute the negative effect of the current declining interest rate environment.

One negative in retail banking was in microlending, an area the group was slow to enter but where it has "burnt its fingers" nonetheless.

It hiked bad-debt provisions on its R250m microloan book and made a R104m pretax loss on instalment loans.

FirstRand's corporate banking segment, which includes FNB Corporate and Rand Merchant Bank, grew pretax profits 21% to R1,7bn. On the downside, RMB Asset management saw a R5,5bn net outflow of funds.

Dippenaar said the group continued to target real earnings growth of at least 10%.

The FirstRand share price gained nearly 6% yesterday to close at R7,70 on the JSE Securities Exchange SA.



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News mag beats bank over Mac ad

A cheeky news magazine has seen off an attempt by FirstRand Bank to squash a radio ad for an article about Mac Maharaj, the former politician in the spotlight at the Hefer commission.

FirstRand - the owner of First National Bank - complained to the Advertising Standards Authority after noseweek magazine ran a radio ad saying the group had landed itself in a "billion-rand crisis" because of one of its directors, Maharaj.

"To keep him on is as risky as it is to fire him," said the ad, on Classic FM in June. "Why? . . . Well, for a start, some of the bank's top executives could just find themselves facing corruption charges if they are not very careful."

Maharaj resigned from FirstRand's board in August.

The group's advertising agency told the authority that the ad was "sensationalist, malicious, unfounded, unproven and unsubstantiated".

But noseweek argued that it was a fair reflection of the article, that the provocative tone was appropriate and the story was about a newsworthy public figure.

The authority dismissed FirstRand's complaint, saying it agreed the advert was an accurate reflection of noseweek's article and Maharaj was a public figure. It also said it was not the right forum to decide whether the claims were true.

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