Chapter 2: General business management

2.1 Introduction

This chapter will focus on the general business management of an organisation and the elements (constructs) that influence corporate reputation. Figure 2 illustrates the relationship of general business management in relation to other business processes and corporate reputation.

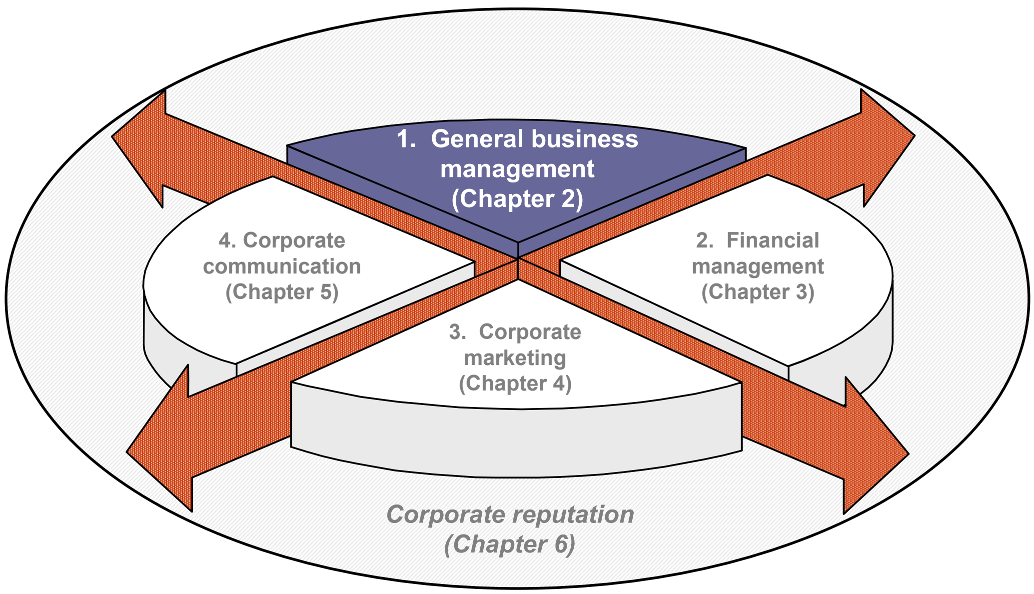

Figure 2 General business management in relation to corporate reputation

General business management provides the foundation for structuring and understanding an organisation. In general, business management focuses on delivering the right product to the right people at the right time in the right place at the right price. In order to ensure successful business management, various elements will be discussed. Firstly, the IT industry needs to be understood. This is followed by an understanding of the leadership and management of an organisation as these determine the strategy of the organisation, which includes the vision and mission. The organisation needs to have clear core competencies to enable it to deliver its products and services. Through the alignment of processes, the organisation will be able to deliver on its promises. The organisation needs to be continually innovative and be able to take advantage of opportunities, thus striving towards corporate benchmarking, which in turn may lead to globalisation. These business processes need to be supported by business ethics so as to have the best interest of all stakeholders involved at heart. Being ethical will have an influence on an organisation's black economic empowerment (BEE) initiatives and will create trustworthiness for the organisation. It needs to be noted that there are many elements that contribute to general business management, but for the purposes of this study, only these elements will be explored further. These elements will be discussed in greater detail in the following section.

2.2 Being in the IT industry

According to the South African Information Technology Industry Strategy (SAITIS) (2000:30), conceived under the auspices of the Department of Trade and Industry, South Africa already has an established IT industry. It comprises of a small number of thriving large indigenous organisations, some of which have achieved multinational status. There are several state-owned enterprises that are major players in the IT industry, a growing base of IT small and medium enterprises as well as a number of foreign-owned multinational enterprises that have established a presence and business relationships in South Africa. The IT industry has a small but growing presence in local and export markets. It is recognised that a powerful stimulus to this industry's development could be achieved through the stimulation of the local market for IT products, services and applications. Furthermore, such stimulation could have substantial socio-economic benefits for other South African industries, through the enabling impact of adopting IT, particularly new and innovative applications that pave the way for the realisation of an information society.

Alvesson in Goldberg *et al.* (2003:168) notes that IT organisations are particularly dependent on a positive reputation, since they lack tangible assets and face more rapid obsolescence of products than organisations in other industries. They are often judged while their products are still in the development phase, against more established organisations that benefit from network externalities.

Barber and Campbell (2001:13) comment that to create shareholder value and take full advantage of the opportunities before them, IT executives need to take a fresh look at their organisations and realise that in the parts that are people-intensive, capital-based measures may not provide the insights they need. The risks of not understanding employee performance and failing to set up differentiated rewards based on value creation are substantial. The values of today's technology-based organisations are driven by intellectual capital, quality of services and the ability to attract and retain the most productive employees. Executives who rely on intuitive methods of measuring the contributions of human capital put their organisations at a competitive disadvantage. Knowing how to quantify the impact of people is essential to managing a successful technology organisation; therefore the leadership style within the IT organisation is crucially important.

2.3 Leadership style

Grunig (1992:233) describes excellent organisations as having leaders who rely on networking and "management-by-walking-around", as opposed to authoritarian systems. Excellent leaders give people power to minimise power politics. At the same time, excellent leaders provide a vision and direction for the organisation, creating order out of chaos that empowerment of people can create.

Bromley (2002:222) and Lam (2003:13) note that very often the corporate brand of an organisation is infused with the personal attributes of its leaders; the more senior the executive, the closer the fit between corporate brand and personal brand. Grupp and Gaines-Ross (2002:20) add that the reputation of the organisation's leader, for example the chief executive officer (CEO), is integral to an organisation's reputation and overall success. Research shows that the leader's reputation is estimated by influential businesspeople, such as peer CEOs, business executives, financial analysts, business media and government officials, to account for 48% of an organisation's reputation. Just like any other wealth-creating asset, the leader's reputation needs to be invested in, managed and leveraged over the long-term to reap enduring benefits, which include attracting more investors, partners, clients, job applicants and trust in corporate decisions. Key elements of the leader's reputation are credibility, integrity and high-quality communication with internal audiences about the direction of the organisation.

Organisational leaders must, according to Testa (2002:262) and Wilson (2003:16), understand how internal and external stakeholders perceive them if the relationship is to be maximised. The leader must earn the trust of all stakeholders, which is a difficult balancing trick, as each stakeholder group has different needs, therefore very often, as mentioned by Lam (2003:13), the leaders communicate without making much of an impression. Either they do not say anything memorable, or they are remembered for all the wrong reasons such as a bad media quotation, poor slides or annoying body language. Worst case: their communication is mistrusted and misinterpreted, achieving exactly the opposite of what they intend. As leadership within an organisation has an influence on corporate reputation, it is vital to ensure that leaders set the right tone.

Ettorre (1996:36) states that intelligent organisations make perception management part of their senior executive training regimen. Consequently, Davis and Dunn (2002:26) and McNaughton (2003:13) note that the organisation's leader has to be the ultimate brand ambassador and must take responsibility for the brand as the business asset that can define and build real value, but cannot build the brand alone. Leaders can provide the motivation and the spirit. However, they lack the widespread muscle required to bring the brand to life because their reach into the organisation can only go so far. They have to have the right human and financial support and resources to back up their brand building and to inspire employees.

Therefore, Bromley (2002:222) adds that it is important that the senior management team develop a deeper understanding of brand and its role within strategy so that it can be effectively communicated throughout the organisation. They also need to have the ability to execute the business model; this is critical to corporate reputation in most industries. The quality of management will be discussed in the next section.

2.4 The quality of management

Leaders are the ultimate brand ambassadors, as mentioned in the previous section. They do, however, need to be supported by their management team to be able to run a successful organisation. This section focuses on the quality of management in the organisation and the impact it has on corporate reputation.

Doyle (2000:295) states that the development of a communications strategy for an organisation enables management to build knowledge and an understanding for its markets and various stakeholders. This enables the organisation to enhance the effectiveness of its core business processes. Powerful brands, marketing expertise and strong relationships with stakeholders enable it to be more effective at launching new products, maintaining client loyalty and running an efficient supply chain. O'Connor (2001:58) notes that within the context of modern management, it is a prerequisite that CEOs must be equally at ease with corporate communications issues as with technical accounting details. Successful organisations, according to Schultz and De Chernatony (2002:110), thrive because their management is keen to discover and enact new ideas.

As stated previously, Ettorre (1996:36) mentions that intelligent organisations make perception management part of their senior executive training regime, thus enabling a greater understanding of corporate branding and resultant corporate reputation. De Chernatony (2002:115) explains that with clearer expression of the corporate brand, managers are better equipped to develop the brand. The success of a brand depends on the extent to which there is harmony between the managerially defined values, effective implementation of values by employees and appreciation of these values among clients. Schreiber (2002:210) debates that executives often misunderstand how reputations are achieved and maintained and as a result, they are likely to rely too heavily on corporate advertising, while at the same time not doing enough about reputation-building activities with stakeholders. These are elements and activities that need to be addressed by the leadership as well as the management team of the organisation in terms of organisational strategy, which is the focus of the next section.

2.5 The sustainability of strategy

Testa (2002:262) and Wilson (2003:16) note that good organisational leaders will outline the future state of the business beyond their own tenure, putting in place building blocks for a sustainable organisation for their successors.

Strategy is described by Steyn and Puth (2000:29) as a direction. It can be seen as an approach, design, scheme or system that directs the course of action in a specific situation. Strategy provides a unified sense of purpose to which all members of the organisation can relate. Where there is no clear strategy, decisions are made either subjectively or intuitively, without regard to other decisions. Strategy is concerned with developing a proactive capability to adapt to environmental changes. Although strategy is seldom reflected on the organisational chart, it is linked to operations. The main purpose of strategy is to ensure that the organisation is capitalising on its distinctive competencies, i.e. its strengths, taking advantage of opportunities in the environment, thereby providing a competitive advantage.

Van der Walt, Strydom, Marx and Jooste (1996:540) state that in order to develop a strategically managed organisation, corporate management must work towards developing an innovative, self-regenerating organisation based on factors such as sound structures, effective systems, excellent employees and shared values. This will also have a positive impact on an organisation's reputation. Nakra (2000:39) agrees that corporate reputation emanates from everything it, its employees, and others say about it, how it behaves and what strategies it tries to enact. Schreiber (2002:211) deliberates that when organisations do not achieve the reputation they believe they deserve, considerable blame is often placed on marketing and communication, when often the problem exists because of poor corporate strategy and vision. Therefore organisations' strategy and vision need to be carefully formulated, communicated and implemented.

2.6 Vision and mission clarity of an organisation

The vision and mission are integral to the organisation's strategy. Steyn and Puth (2000:55) describe vision as representing a realistic, credible and attractive future state of affairs: a condition that in some important way is better than the one that exists at present. The vision indicates where the organisation is going and what it wants to achieve. The organisation's goals and objectives are derived from its vision. Once a vision is achieved a new vision is developed.

Van der Walt *et al.* (1996:477) and Steyn and Puth (2000:55) define an organisation's mission as what the organisation is and what it does i.e. its purpose. They classify it as the organisation's role in society and in the economy. The definition should not be too narrow, as it will constrict the development of the organisation. The mission flows from the values of stakeholders, the people and groups with an interest in the organisation, including the public and the government. The mission is an explanation of an organisation's identity and ambition; it is the purpose of the organisation's existence. The mission statement describes the nature of the organisation's activities, including the essence of the organisation and the nature and scope of the work performed and it communicates the business. The mission usually remains unchanged as a statement of the organisation's common and timeless cause. It is naturally difficult, especially for large organisations, to reflect the nature of their activities in a single statement. It is nonetheless important to describe this as accurately as possible, as the mission serves as direction indicator.

George (2001:39) notes that a mission-driven, values-centred organisation is able to motivate employees to create innovative products and superior client service that is sustainable over a long period. This in turns leads to increased client satisfaction, a competitive advantage that drives high revenue growth, with high profit margins and high rates of growth in profitability. In today's financial markets, these are the necessary conditions for sustainable long-term increases in shareholder value. This formula is reinforced by reinvesting significant portions of the increased profits in sustaining revenue growth. Bromley (2002:222) asserts that in addition to the CEO, the senior team must communicate the vision throughout the organisation and act decisively and collectively to meet expectations. All the stakeholders must be confident that the top team can pull together and deliver on promises made. This in turn has a positive impact on corporate reputation as noted by Bickerton (2000:42) and Schreiber (2002:210), who identify that those organisations with a positive reputation tend to project their core mission and brand in a more systematic and consistent fashion to all their stakeholders than organisations with lower reputation rankings.

2.7 Core competencies of an organisation

The organisation needs to have clear core competencies to enable it to execute its mission and vision.

According to Goldberg *et al.* (2003:171) there is a necessity to develop core competencies, for which management follows a long-term perspective, undertaking significant investments in building up internal capabilities. The organisation constructs a good name through marketing innovative quality products with high product value and good servicing. Efforts are directed at building a strong organisational infrastructure of skilled manpower, experienced managers and best technologies.

Porter in Goldberg *et al.* (2003:173) emphasises that there should be a long-term investment in core competencies for strengthening an organisation's functional activities and for developing a unique product based on innovativeness and quality. This is achievable through managing the alignment of processes.

2.8 Corporate management process alignment

Adendorff and De Wit (1997:15), as well as Christensen (2002:164), define business process re-engineering as the fundamental re-thinking and radical re-design of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed.

Through the alignment of management processes, the organisation will be able to ensure smooth running of the business, as it will have its processes and structures in place, enabling it to deliver on its promises. This it will also enable it to take advantage of opportunities as they arise.

2.9 Ability of an organisation to take advantage of opportunities

As stated by Steyn and Puth (2000:29), strategy provides the organisation with direction. Strategy provides a unified sense of purpose to which all members of the organisation can relate. The main purpose of strategy is to ensure that the organisation is capitalising on its distinctive competencies, i.e. its strengths, to take advantage of any opportunities the environment may provide, thus providing a competitive advantage.

As deliberated by Moore in Testa (2002:161), market boundaries are evaporating and new players are entering the marketplace. Organisations must therefore craft novel strategies to capitalise on opportunities and develop viable organisational networks. These networks become methods for adding value, which individuals could never achieve in isolation.

The organisation needs to be able to take advantage of opportunities and to be continually innovative, thereby striving towards corporate benchmarking and in the process building its corporate reputation.

2.10 The innovativeness of the organisation in terms of intellectual property

SAITIS (2000:4) recognises that innovation is the lifeblood of developing a sustainable approach to IT development in South Africa, whether related to the development of products and services by the IT industry or the adoption of IT in other industries of the economy. There is clearly a need to build a culture of innovation and to create the need for innovation to happen.

Berman and Woods (2002:41) and Tallman and Fladmoe-Lindquist (2002:130) comment that in today's knowledge-dominated economy, perception counts. It is not enough for organisations to identify and properly nurture their intellectual property (IP); they must also convey IP strengths to key audiences in the hope of establishing a strong IP brand. Organisations that underestimate the interest and intelligence of investors regarding IP and fail to educate, quantify and communicate, are going to be in for a rude awakening. The failure to convey intellectual property strengths - such as number and types of patent assets, strategy, licensing revenue and transactions, competitive IP position and successful enforcement actions - can be a major impediment for organisations that wish to establish or to reinforce the way in which their inventions and other innovations are perceived. These organisations run the risk of being misunderstood in the product marketplace, or even worse, being understood too late. If the organisation does not include information about IP in its communications, it is leaving out an important aspect of the investment public's information set.

Being innovative and capitalising on its IP, an organisation will be able to strive to be leaders in the marketplace and be used for benchmarking purposes, as it will be regarded as the most effective in a specific area and laying the foundation for best practices.

2.11 Corporate benchmarking

Benchmarking is described by Ettorre (1993:10), Adendorff and De Wit (1997:16), Nakra (2000:38), Matthews (2003:95) and Sarkis (2003:1) as a systematic and rigorous examination of the organisation's product, service or work processes measured against those of organisations recognised as the best, to produce changes and improvements in the organisation. The aim is to identify best practices so as to identify gaps in the process currently in use. Comparing operations to find leaders and laggers in environmental performance is essential to moving organisations closer to effective practices. The use of performance measurement and benchmarking requires that organisations have hard, factual data, to help in setting goals and achieving those goals. This helps organisations identify their own weaknesses and enable them to develop strategies accordingly so as to enhance corporate reputation.

Ettorre (1993:10) mentions that the most effective benchmarking is continuous, as the organisation consistently seeks out feasible new areas of benchmarking, eventually integrating benchmarking into strategic planning and corporate vision. Strategic planning is a key application for benchmarking.

Edgett and Snow (1997:250) raise the concern that the success of new services cannot always be measured in the same way as tangible product success. Such traditional quantitative guideposts as profitability and unit sales often present only part of the success equation for new services. Many other factors, such as cross-sales, client loyalty and perceived quality, are also factors in a success formula.

2.12 Going global

Van der Walt *et al.* (1996:577), Tallman and Fladmoe-Lindquist (2002:125) and The International Labour Organisation (ILO) in Harbridge and Walsh (2002:424) suggest that global organisations follow an integrated strategy in the world markets, increasing cross-border economic interdependence through managing a network of differentiated but integrated subsidiaries, affiliates, alliances and associations. They view the world as one global market and use their products, services and employees to obtain the greatest advantage for the organisation. Global integration involves a strategy of consolidating international markets and operations into a single worldwide strategic entity. It makes the product offerings and demands increasingly homogeneous and encourages organisations to restructure in response to global competitive opportunities.

Balmer and Gray (1999:172) postulate that a pervasive image and favourable reputation can be a powerful competitive weapon for an organisation expanding globally. However, Pinkham in Nakra (2000:35) cautions that as organisations move aggressively into international production and markets, hosts of public relations issues emerge, therefore Crosby and Johnson (2002:10) suggest that a critical success factor for global account management is excellent communication. Successful relationship building around the world comes down to the attitudes and culture of the people involved. These include aspects such as different laws and customs for organisational practices as well as for dealing with the news media, differences in political structures between regions and countries and a challenge of achieving consistency of image and policy across the world. A key issue when developing a global strategy is how much the strategy, particularly the marketing strategy, will be standardised across countries. The prime motivation for standardisation is economics. The greater the standardisation, the greater the potential for scale economics will be.

Engardio, Kripalani and Webb (2001:132) and Belk in Hsieh (2002:52) as well as Tallman and Fladmoe-Lindquist (2002:117) suggest that it is necessary to learn about the local cultures and to build a presence carefully. Cultures should transform global meanings into unique local meanings; accordingly, in each country, there are differences in the meaning invested in brands and it is likely that clients consequently hold different brand beliefs. Hsieh (2002:51) concurs that the variation of clients' behaviours that are driven by national characteristics may limit the success of a marketer's global campaign.

Tallman and Fladmoe-Lindquist (2002:130) note that leading organisations in technology-intensive industries, such as the IT industry, are indeed globalising, but they are doing so to build or discover new capabilities as much as to lever their existing assets and skills further.

In order for an organisation to succeed both locally and globally, it needs to have strong business ethics.

2.13 Business ethics within an organisation

De George in Joyner, Payne and Raiborn (2002:114) defines business ethics as a field of 'special' ethics, dealing specifically with ethical dilemmas arising in the context of doing business. Watt (2001:8) and Fisher (2002:96) classify business ethics as accepted standards or codes of behaviour and practice. It is a moral perspective that asks an organisation to judge its conduct in terms of what is right and wrong, what is decent, what is good, what is honest and what is honourable. Ethical values may be voluntarily adopted, such as an individual's belief in protecting the environment or an organisation's commitment to establishing a corporate culture that enshrines social equity as a core belief. On the other hand, developing and monitoring ethical practices may require governments and regulatory bodies to pass legislation. Shareholders in publicly listed organisations may influence the corporate culture by seeking socially responsible behaviour. According to Schwartz (2000:4) a good organisation has integrity. Anon. (2002a:8) concurs that codes of ethics not merely help employees to do what is right; research has shown that organisations with an ethical decision-maker are more effective and more productive.

Pruzan (2001:51) asserts that throughout the world the media keep a wary eye on corporate behaviour and zoom in sharply on suspected organisational misdeeds; the television news' guillotine and the Internet are ever ready to defame organisational leaders who are accused of unethical behaviour. They provide clients with information that enables them to make purchasing choices based not only on traditional parameters such as price and functionality, but also on matters such as how and where the products and services are produced and what the reputation of the organisation producing them is. Clients, the primary source of corporate income, are increasingly concerned with the environmental, social and ethical responsibility of business. There are indications that ethical investing will play an increasing role in the future.

Harrison in Fisher (2002:96) distinguishes between two schools of thought on why business ought to be ethical. The first school is that being ethical is good for the bottom line and it links with self-interest. As Kitson and Campbell in Fisher (2002:96) report, in order to survive, a business must make a profit; however, in doing so it must comply with the law and with society's moral values. The second school argues that business should be ethical because being ethical is the right thing to do. According to Grace and Cohen's analysis in Fisher (2002:97) self-preservation motivates organisations to act ethically. The risks to self-interest and the penalties that could be imposed outweigh any potential benefits of acting unethically. Thus, it is good business sense to do the right thing.

Fisher (2002:96) notes that a particular business can be thought of as taking either a surface or a deep approach to ethics, depending on its leaders' motivation for being concerned about ethics. This approach is then implicitly and explicitly communicated to employees through the conduct of management, policies and procedures, training programmes and the corporate culture, thereby strongly influencing the behaviour of individuals within the organisation. It is argued that a surface approach to ethics will not encourage ethical behaviour. A deep approach, on the other hand, has the potential to do so because this approach promotes organisational conditions that are conducive to ethical behaviour.

Richardson and Bolesh (2002:54) suggest that reputable organisations protect their corporate images by maintaining high standards of practice, no matter what the circumstances. The most admired organisations use a combination of transparency, strong ethics and a commitment to quality products and services to build and maintain their reputations.

2.14 Black economic empowerment initiatives

Ethical practices may require governments and regulatory bodies to pass legislation, such as black economic empowerment (BEE) initiatives. Anon. (2003b:3) explains that the government has announced that organisations in industries that are not covered by BEE charters will have their progress assessed with score-cards based on criteria related to direct empowerment, human resource development and employment equity and indirect empowerment, relating to procurement policy. High scores will be required if organisations wish to be considered for government contracts. It appears that organisations will assess their own progress, which may reduce the transparency of the process, although it does suggest that the government is committed to maintaining its flexible stance over the issue. BEE targets will be set for each industry and will include broad consultation with the private industry. Furthermore, a key aspect of this strategy is to invest funds in new industries to increase the proportion of participation without direct redistribution. This will reduce, but not eliminate, the short-term uncertainty for organisations wary of the tax, legal and financial implications of BEE despite the government's assertion that implementation will not be 'prescriptive' i.e. failure to meet targets will not result in sanctions on a particular organisation. Anon. (2003b:1) states that the most likely scenario is that the government will introduce some incentives to encourage compliance, either tax breaks or grants linked to the fulfilment of certain goals. However, even this approach raises problems. BEE would force organisations to evaluate the cost implications of varying degrees of compliance, essentially adding another layer of complication to the corporate tax regime and encouraging creative accounting to boost 'black ownership' artificially. However, notwithstanding the possible tax implications, the policy could also dampen economic efficiency and consequently South Africa's competitiveness, if organisations source goods from second-choice suppliers, or promote people into positions they are ill-equipped to deal with, in order to meet BEE targets.

Currently South African organisations' reputations are affected positively if they are perceived to be BEE compliant.

2.15 Trustworthiness of an organisation

Anderson in Bennett and Gabriel (2001:424) as well as Raj (2003:21) note that a trustworthy relationship is one in which a partner wishes to make a long-term commitment. Trust is an important feature of any relationship; it creates the conditions under which commitment develops and organisations become willing to make relationship-specific investments capable of developing competitive advantage. Trust hinges on the belief that one partner will act in the best interests of the other. It is, however, important to note that trust in a partner is likely to build up only gradually over time, normally via small incremental stages. Metcalfe in Bennett and Gabriel (2001:424) comment that the longer the period of exposure to a satisfactory partner, the higher the level of trust, with consequent willingness to undertake relationship-specific investments.

Pruzan (2001:50) and Testa (2002:262) state that today, trust in leaders equals trust in the organisation and its ability to get results. The CEO must earn the trust of all stakeholders, which is a difficult task as each stakeholder group has different needs. Issues such as misaligned executive compensation and rewards can influence the trust of all stakeholder groups negatively in different ways and may lead to confusion and cynicism. George (2002:39) notes that in organisations taking steps just to improve short-term shareholder value, the leadership sells it own soul to gain personal advantage and in abandoning long-held values or its mission, trust is broken and will never be regained. Frequently, it is lost with clients as well and never recaptured. This is why the process of leadership selection and grooming is so crucial to the long-term health of the organisation.

Communicators must recognise that reputations are built through actions, not only words, and encourage CEOs to provide a source of direction for stakeholders.

2.16 Conclusion

To conclude, it is clear that there are many elements within the general business management of an organisation that influence corporate reputation. It is vital that the leadership of an organisation understands the role of communications so as to enhance the corporate reputation of the organisation. Leaders and managers who have a clearer concept of the corporate brand are better equipped to develop the organisation's brand and be brand ambassadors, thus building a positive reputation for the organisation.

Vision and mission clarity as well as sustainability of strategy enables the organisation to know where it is going and what its purpose is. A mission-driven, values-centred organisation is able to motivate employees to create innovative products and superior client service that is sustainable over a long period. This in turns leads to an increase in competitive advantage that drives high revenue growth, with high profit margins and high rates of growth in profitability. Corporate management must work towards developing an innovative, self-regenerating organisation based on factors such as sound structures, effective systems, excellent employees and shared values. Corporate leaders must develop sustainable corporate reputation strategies to maintain the desired image and reputation.

Reputable organisations protect their corporate images by maintaining high standards of practice no matter what the circumstances. The most admired organisations make use of a combination of transparency, strong ethics and a commitment to quality products and services to build and maintain their reputations.

It is also important for organisations to take cognisance of opportunities in the market, innovativeness, corporate benchmarking, globalisation, BEE as well as trustworthiness, in terms of their corporate reputation within the market. An important element of general business management is financial management, which will be discussed in the next chapter.