

Chapter 1: Orientation and background

1.1 Introduction

This introductory chapter will provide an outline of the aim and goals that were pursued in this study. It will also offer the conceptualisation and contextualisation for the research. The latter part of Chapter 1 will provide an outline to the rest of the study.

The general aim of the study was to determine what elements in terms of general business management, financial management, corporate marketing and corporate communication had an impact on the corporate reputation of an organisation within the information technology (IT) industry in South Africa.

1.2 Problem statement

The rationale for this study is that there has been a significant change within the South African IT industry over the past three years, contributed to significantly by the woes of the international technology environment.

Over the past 18 months organisations within the IT industry have experienced extraordinarily negative adjustments to their share prices. A large part of these adjustments can be attributed to market industry conditions, which are related to economic and financial performance. An important component of the perceived value of an organisation lies with the corporate marketing and corporate communication of an organisation, which have an impact on corporate reputation and how the organisation is portrayed and viewed within the marketplace. Different attributes of corporate reputation are evident in various stakeholder groups.

Since the formation of The Group in 1999, the management's attention has been focused on effectively positioning the organisation to serve the IT industry in both Southern Africa and Australia. It is understood that financial performance as well as macro-economic and industry economic cycle trends form the basis of investment decisions taken by both private and institutional investors. Although it is acknowledged that these factors form a major portion of the aspects that influence investment decisions, it is important to understand that these factors should not be regarded in isolation when a perception of an organisation is formed. Investor decisions are also driven strongly by the general business management, corporate marketing and corporate communication of an organisation.

With The Group now firmly established and its strategy firmly in place, the executive management's attention is turning to organisational confidence-building activities recently articulated to the investment community by The Group's executive chairman. With this in mind, cognisance needs to be taken of the non-financial aspects of The Group and how their stakeholders perceive the organisation in the marketplace. The stakeholders included for the purposes of this study were The Group's employees, The Group's executive board, clients, non-clients, financial analysts, trade and business media, partners and suppliers, public relations houses and the general public.

The focus of this study is to benchmark and provide a measure of The Group's corporate reputation. This will enable steps to be taken to develop an investor-orientated image and reputation of The Group in the South African business environment; it also provides the basis for future measures to enable improvements to be tracked.

1.3 Research objectives

The general aim of the study was to determine what elements have an impact on corporate reputation within the IT industry in South Africa. Three specific objectives burgeoned from this general aim, namely:

- To understand the internal and external channels of communication of The Group so as to determine the flow of communication between stakeholder groups. The purpose of this was to determine which of the stakeholder groups has the greatest impact on corporate reputation in terms of disseminating information about the organisation.
- To identify the specific elements in terms of general business management, financial management, corporate marketing and corporate communication that influence corporate reputation for each stakeholder group. These perceptions were measured by means of a comparative multi-item measuring instrument (SERVQUAL, also known as a gap analysis, which was modified for the purposes of this study), determining what the gap is between the expectations of the elements versus the current performance in terms of corporate reputation.
- To advise The Group on actions that needs to be taken to develop an investor-orientated reputation within the South African business environment through corporate marketing and corporate communication so as to have a positive influence on shareholder value.

1.4 Definition of corporate reputation

Klein (1999:32), Bromley (2001:316), Gotsi and Wilson (2001:30), Mastal (2001:57) as well as Gardberg and Fombrun (2002:305) define corporate reputation as a collective representation of an organisation's past actions and results that describes its ability to deliver valued outcomes to multiple stakeholders. Reputation represents a value judgement about the organisation's qualities built up over a period of time and focuses on what it does and how it behaves. Thus, reputation has a historical dimension as it represents the estimation of the consistency over time of an attribute of an organisation based on its willingness and ability to perform an activity repeatedly in a similar fashion.

According to Ettore (1996:36) and Dollinger in Goldberg, Cohen and Fiegenbaum (2003:268), many elements go into an organisation's reputation. These elements emanate from areas within the organisation such as the general business management, financial management, corporate marketing and corporate communication.

1.5 Conceptual framework

Clarification of concepts as they are used in the study to define corporate reputation will be provided in this section.

There are four concepts that contribute to corporate reputation, namely general business management, financial management, corporate marketing and corporate communication. This conceptual framework is illustrated in Figure 1.

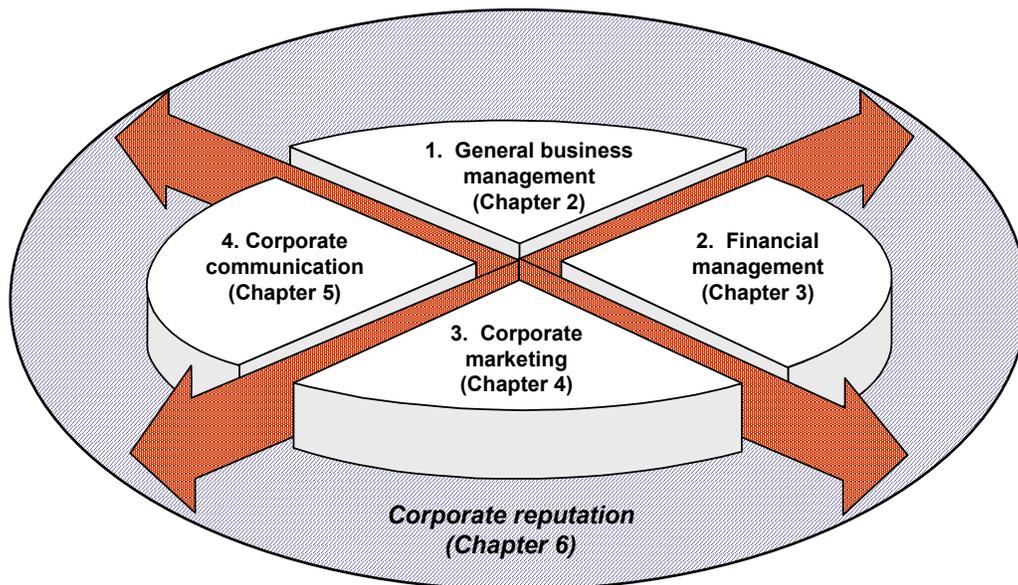


Figure 1 Conceptual framework of corporate reputation

The figure above illustrates the relationship between the concepts that have an impact on corporate reputation. All the concepts illustrated above are interrelated and have an

influence on one another. For the purpose of this study, the order of discussion will first be general business management, followed by financial management, then corporate marketing, corporate communications and finally a closer look will be taken at a combination of these processes culminating in corporate reputation. This figure will be provided at the beginning of each chapter, as it forms a guide in terms of the specific concepts being focused on.

1.5.1 Concepts

The concept of corporate reputation consists of four main business parameters, namely general business management, financial management, corporate marketing and corporate communication, which have been identified for the purposes of this study. Each of these parameters has been elaborated on in terms of its constructs in the following section. It is important to note that these parameters are interrelated and has an influence on one another; therefore a holistic view needs to be taken of the parameters with regard to corporate reputation.

1.5.2 Constructs

Each of the parameters illustrated in the conceptual framework in Figure 1, namely general business management, financial management, corporate marketing and corporate communication, has constructs (elements) that have an impact on corporate reputation. The following section provides an understanding of the figure in terms of the concepts and relevant constructs, as well as a guide to the chapters in the rest of the study.

- **General business management**

General business management provides the foundation for structuring an organisation. This has been elaborated on in Chapter 2 and focuses on an

organisation being in the IT industry, leadership style, the quality of management, sustainability of strategy, vision and mission clarity, core competencies, corporate management process alignment, delivery on promise, innovativeness of the organisation in terms of intellectual property, corporate benchmarking, globalisation, business ethics, black economic empowerment (BEE) initiatives and finally trustworthiness. An important component of general business management is financial management.

- **Financial management**

Financial management emanates from the business' general management. It is understood that financial performance as well as macro-economic and industry economic cycle trends form the basis of investment decisions taken by both private and institutional investors. Chapter 3 focuses in detail on financial management in terms of share price, shareholder value, investor attractiveness, profitability, sustainability, commercial viability and transparency of an organisation. Although it is acknowledged that these factors form a major portion of the aspects that influence investment decisions, it is important to understand that the factors should not be regarded in isolation when a perception of an organisation is formed. Investor decisions are also driven strongly by corporate reputation in terms of corporate marketing and corporate communication. Therefore Chapter 3 is the shortest chapter in terms of elements influencing corporate reputation.

- **Corporate marketing**

Corporate marketing is driven to a certain extent by financial management, as budget and money spent on marketing are prescribed by the financial aspects of an organisation. Corporate marketing is described in greater detail in Chapter 4, focusing specifically on corporate identity, corporate image and corporate brand.

Only three of the four “P’s” of the marketing mix have been taken into consideration for the purposes of this study. Where products and services are concerned, the quality, flexibility and innovativeness of these are discussed; pricing is discussed in terms of the value of offerings and the section on promotions focuses on integrated marketing communication, which is discussed in greater detail in Chapter 5 – Corporate communication.

- **Corporate communication**

Corporate communication has evolved from corporate marketing, in terms of developing from the “promotions” element of marketing. The difference between corporate marketing and corporate communication is that marketing sells a product or service to a specific target audience; corporate communication focuses on building mutually beneficial relationships with a wider stakeholder audience. Corporate communication is discussed in detail in Chapter 5, with specific focus on public relations communications, corporate culture, quality of employees, employee satisfaction, employee loyalty, client relationships, client loyalty, client satisfaction and corporate social responsibility.

- **Corporate reputation management**

Corporate reputation is discussed in Chapter 6. All the above-mentioned constructs (elements) contribute to an organisation’s corporate reputation. However, not all of these constructs have the same impact on corporate reputation. Only those that have the biggest influence on corporate reputation have been included in this chapter. These include leadership and management qualities, organisational ethics, shareholder value, organisational sustainability, corporate branding, the marketing mix, public relations and relationships with stakeholders. This is in line with

Schreiber (2002:211), who comments that these elements are similar to those used in the yearly Fortune magazine rankings of “America’s most admired corporations”.

1.6 Definition of terms

This section is aimed at clarifying terms that have been used in this study.

- **Organisation**

This term depicts any entity within the business arena.

- **Stakeholders**

According to Freeman in Steyn and Puth (2000:5) a stakeholder is defined as an individual or group of individuals that is affected by the decisions of an organisation or whose decisions affect an organisation. Depending on their power and impact on a market, they have a significant impact on the perceived value of the organisation in the marketplace.

- **The Group**

This study has been documented as a case study. For the purposes of confidentiality, the organisation will be referred to as The Group.

- **LSM 9 and LSM 10**

This refers to the “living standard measurement”, which means that the respondents are above the age of 35, have a matric (grade 12) or higher qualification, are urbanised and earn between R9 000 and R13 000 per month as a minimum

personal income. They have full ownership of durables, which include a personal computer and satellite dish.

1.7 Delimitation of the study

- This study relates only to the IT industry within the borders of South Africa.
- Only four business parameters influencing corporate reputation have been identified for the purposes of this study. These parameters are general business management, financial management, corporate marketing and corporate communication.
- Only specified stakeholders have been included in the study, namely The Group's employees, The Group's executive board, clients, non-clients, financial analysts, trade and business media, partners and suppliers, public relations houses and the general public.
- Shareholders of The Group were not included in this study; as such information was confidential and unobtainable.

1.8 Demarcation of study

Corporate reputation is this dissertation's core focus. There are various parameters within an organisation that have an impact on corporate reputation, namely general business management, financial management, corporate marketing and corporate communication. Chapter 2 focuses on the elements of general business management that have an impact on corporate reputation. An important element of general business management is financial management, which is discussed in Chapter 3. Financial management has an impact on the organisation's corporate marketing, discussed in Chapter 4, and corporate

communication, discussed in Chapter 5. All the elements in each of these processes that have the greatest impact on corporate reputation culminate in Chapter 6. The research methodology used for this study is outlined in Chapter 7, followed by the findings discussed in Chapter 8, with the conclusion and recommendations discussed in Chapter 9.