CHAPTER 4

KING III: THE IMPLICATIONS FOR COMMUNICATION MANAGEMENT

"... successful governance in the world in the 21st century requires companies to adopt an inclusive and not exclusive approach. The company must be open to institutional activism and there must be greater emphasis on the sustainable or non-financial aspects of its performance. Boards must apply the test of fairness, accountability, responsibility and transparency to all acts or omissions and be accountable to the company, but also responsive and responsible towards the company's identified stakeholders. The correct balance between conformance with governance principles and performance in an entrepreneurial market economy must be found, but this will be specific to each company." – The King Committee on Corporate Governance in South Africa as quoted by Cliff Decker Attorneys (2002:2).

4.1 INTRODUCTION

The quotation above is a reflection of the spirit in which the King Committee approached the development of all three the King Reports on Corporate Governance for South Africa since 1994. As said previously, the topic of corporate governance has grown in significance both locally and worldwide, because of the substantial number of undeniable corporate scandals (Hilb, 2006:3). Similarly, Letza et al. (2004:242) contend that much of the debate on corporate governance has centred on practical issues such as corporate fraud, abuse of managerial power and social irresponsibility.

Four primary causes of the crises in corporate governance exist in four different spheres, namely the technological sphere, the economic sphere, the ecological sphere and the social sphere. The reasons for the primary causes in the four spheres are (Hilb, 2006:3-4):

- *Technological (The Dot.Com bubble bursting)*
  With the advent of the World Wide Web, it was assumed that the internet invented a new business model. Instead, it is merely a tool that organisations can use to build their business.
- *Economic (The stock market crash)*
  The corporate governance scandals in the USA led to the stock market collapse and the resulting economic downturn that was experienced worldwide. This led to a low level of public confidence in the US economy and those individuals in influential positions.
- *Ecological (High-risk strategies)*
  The number of corporate collapses or corporate strategic mistakes made has shown that boards approved strategies that were too risky. The orientation of these boards seemed to have been focussed on short-term financial performance rather than longer-term effects on the broader economy, society and environment.
- *Social (Irresponsible top management)*
  A lack of integrity is exhibited by those responsible for directing and controlling organisations. This may be evident in the lack of the boards of companies considering stakeholders, and being sensitive to society and the environment within which these companies operate.

The crisis in corporate governance coupled with the causes for this crisis previously discussed, have necessitated increased efforts, both globally and in South Africa, for improved governance guidelines. A number of efforts were initiated in South Africa, discussed later in this chapter, which includes the formation of the King Committee on Corporate Governance. This committee

has been responsible for the development of a code of practice for corporate governance in South Africa. It started with the development of the King Report in 1994, followed by the King II Report in 2002 and currently the King III Report released in 2010. To understand this progression of reports, an explanation is provided.

Due to the changing global economic environment, the King I Report had to be updated. This was done in the form of King II (the King II Report on Governance for South Africa, 2002), again developed by the King Committee on Corporate Governance. In King II the triple bottom line concept was proposed, requiring companies to move away from the single bottom line (profit for shareholders). The triple bottom line concept embraces the economic, environmental and social aspects of a company's activities (Cliff Decker Attorneys, 2002:2).

International causes for the global crisis in corporate governance also impact South Africa and have indicated the need for the third Report on Governance for South Africa. Its focus is to put financial responsibility into perspective by also reporting on "how a company has, both positively and negatively, impacted on the economic life of the community in which it operated during the year under review, and how the company intends to enhance those positive aspects and eradicate or ameliorate the negative aspects in the year ahead" (Institute of Directors, 2009:9).

Globally, efforts to improve corporate governance and avoid corporate scandal have been made. The two well-known efforts are discussed next.

4.2 EXAMPLES OF TWO OTHER INTERNATIONAL EFFORTS TO IMPROVE CORPORATE GOVERNANCE

Some of the most influential economies in the world include that of the United Kingdom (UK) and the United States of America (USA), where in both instances listed companies have to comply with the measures implemented, similar to the King III Report for South Africa. For the purpose of this discussion the corporate governance efforts of these two countries are discussed. In the United Kingdom (UK) a number of reports were issued following the Cadbury Report which now forms the UK Governance Code, referred to as the Combined Code. The United States of America (USA) has chosen to codify a significant part of its governance in an act of Congress known as the Sarbanes-Oxley Act (SOX). These were mentioned in earlier chapter and are now discussed in more detail for comparison purposes.

4.2.1 The Cadbury Report (UK)

The Cadbury Report of 1992 is globally considered as the starting point for the development of corporate governance codes in Europe. It is regarded as a self-regulation approach that forms part of the listing requirements of a company, including reporting on the management of a company. This report is the outcome of the efforts of a committee that was chaired by Sir Adrian Cadbury in the United Kingdom, and all UK-listed organisations were expected to adopt the report’s guidelines (Daily et al., 2003:374). The Cadbury Code has informed the Organisation for Economic Cooperation and Development’s (OECD) Principles of Corporate Governance and the Danish corporate governance recommendations (Parum, 2006:558) to mention a few in Europe. It also informed the King Report on Governance for South Africa in 2009.

4.2.2 Sarbanes-Oxley Act (USA)

The Sarbanes-Oxley Act (SOX) came into effect in 2002. It pioneered major changes to the regulation of financial practice and corporate governance in the United States of America. The act is mandatory and all listed companies must comply. The act is named after Senator Paul Sarbanes and Representative Michael Oxley who were mainly responsible for instituting the act. Incorporated in the Sarbanes-Oxley Act are legal sanctions for non-compliance and it only affects public companies. The Act contains 11 sections where each of these sections adds new or enhanced guidelines with which public companies must comply. There are numerous civil penalties as well as criminal penalties for non-compliance (Engelbrite, 2010:[1]). Sox-online (2006:[1]) states that the non-compliance penalties could include a company losing its exchange listing, multimillion dollar fines or imprisonment. Furthermore, it could lead to a decrease in investor confidence. However, companies are not homogenate and the cost of compliance is onerous. For this reason SOX has attracted some criticism both locally and globally (Institute of Directors, 2009:6).

South Africa initiated a number of efforts to improve corporate governance in the country. The next section provides the context within which these developments took place.

4.3 SOUTH AFRICAN CORPORATE GOVERNANCE AND THE KING III REPORT

4.3.1 Previous attempts to South African corporate governance

South Africa is the largest and most developed economy in Africa (Vaughn & Ryan, 2006:504). However, due to South Africa's isolation from the global

economy between 1961 and 1994, South African corporate practices fell far behind with regard to international norms. This led many South African companies to become unfocussed entities. Due to political pressures, market pressures, emerging market crises, coupled with a shift in corporate control structures, South African businesses started to realise that high-quality corporate governance is essential for the country to achieve sustained productivity, growth and economic stability. South Africa developed and implemented several corporate governance reform initiatives such as the Insider Trading Act, revised listing requirements to the Johannesburg Securities Exchange (JSE) and the King Report on Governance to mention three of the best efforts (Vaughn & Ryan, 2006:506). These are now discussed in some detail.

Insider Trading Act

The Insider Trading Act of South Africa was passed in 1998. It enabled the Financial Services Board (FSB) to take more vigorous action against illegal transactions. There are three innovations in this act which include, firstly, the provision for civil liability. This involves a lower burden on proving proof. Secondly, potential offences are investigated by the Insider Trading Directorate. It presents evidence to the offenders and offers them the chance to settlement without admission to guilt. Thirdly, settlements and other damages are deposited into a fund to be distributed to shareholders who had traded in the shares during the period of the offence and suffered losses as a result of the illegal transaction(s).

Revised listing requirements

The revised listing requirements of the Johannesburg Securities Exchange (JSE) include that in 1995, the JSE made it compulsory for listed companies

to disclose the extent of their compliance with the King Report and they were required to adhere to International Accounting Standards, whereas firms previously only had to adhere to generally accepted practice. A further development was the establishment of the GAAP Monitoring Panel to advise the JSE on cases of non-compliance. Furthermore, the JSE successfully launched its own Socially Responsible Investment (SRI) Index in May 2004. The primary objective of the SRI Index is to identify and highlight companies that follow best practices in Corporate Social Responsibility (CSR) and to measure their share price performance. It includes criteria of financial, social and environmental responsibility where companies have to provide evidence of their governance standards, environmental policies, health and safety records, black economic empowerment (BEE) credentials and HIV/Aids policies (Vaughn & Ryan, 2006:506).

The King Report on Governance

The King Committee on Corporate Governance, headed by former High Court judge, Mervyn King S.C., published the King Report on Governance (King I) in 1994. This Report incorporated a Code of Corporate Practices and Conduct. It was the first of its kind in South Africa and aimed at promoting the highest standards of corporate governance in South Africa. King I advocated for an integrated approach to corporate governance, over and above the financial and regulatory aspects. This was also the case in the King II Report on Governance released in 2002 and the King III Report on Governance released in 2008. These are discussed in more detail in section 4.3.2.

For the purposes of this study, the focus will be on the King Report on Governance, in particular, the King III Report, as this innovation towards ensuring better corporate governance in South Africa has received widespread support and recognition, both locally and abroad. Communication

professionals can contribute to better corporate governance through assisting companies to manage their stakeholder relationships as mentioned in Chapter 3. The purpose of this study is to consider the King III Report, in particular Chapter 8 dealing with stakeholder relationships to inform communication professionals on how to improve their capability of managing stakeholder relationships. This may be possible through a clear articulation of the six principles of Chapter 8 of the King III Report, a redefined business paradigm and a well-developed communication management strategy aimed at improving stakeholder relationships. For a better understanding of the evolution of the King Reports, central to the study, King I, II and III are discussed in more detail next.

4.3.2 The King Committee and Report on Governance for South Africa

A committee commissioned by the Institute of Directors in Southern Africa (IOD) issued the first King Report on Governance, which was followed by a more comprehensive King Committee Report (King II) in 2002, followed again by King III in 2009.

The King Committee has been retained and the present King Committee still contains three of the original members. Although globally various commissions and reports were issued to guide the evolution of corporate governance, the committee in South Africa continues to be known as the King Committee. Eleven subcommittees were established for the King III development process, namely (Institute of Directors, 2009:4):

- boards and directors
- accounting and auditing
- risk management
- internal audit
- integrated sustainability reporting

- compliance and stakeholder relationships
- business rescue
- fundamental and affected transactions
- IT governance
- alternative dispute resolution
- editing.

The subcommittees consisted of 106 people with Lindie Engelbrecht, Chief Executive of the Institute of Directors of Southern Africa (IoD) at the time, who acted as the convener of the chairmen of the subcommittees (Institute of Directors, 2009:4).

The primary objective of the first and second King Reports was to promote the highest standards of corporate governance in South Africa by advocating an integrated approach to governance in the interest of a wide range of stakeholders (Kakabadse & Korac-Kakabadse, 2002:311). This was also the focus of the third report. Organisations cannot operate in a vacuum. In other words, stakeholders afford organisations their licence to operate which is based on trust, integrity and a track record of considering a balanced approach to legitimate stakeholder issues.

King I

The King Committee on Corporate Governance was formed in 1992 in South Africa. This was done to consider corporate governance from a South African perspective in line with international thought processes. In 1994, the first King Report (King I) was released, which marked the institutionalisation of corporate governance in South Africa. This report's standard of conduct was developed for boards and directors of listed companies, banks and certain

state-owned enterprises. The emphasis was on the need for companies to become responsible citizens in society (Institute of Directors, 2010:[1]).

King II

Due to changes in the global economy, the second King Report on Governance was published in 2002. This report also contained a Code of Corporate Practice and Conduct. This code remained voluntary, but the Johannesburg Securities Exchange (JSE) requested listed companies to comply with the King Report recommendations, or to explain the level of non-compliance. This report applied to companies listed on the Johannesburg Securities Exchange (JSE), banks, financial and insurance entities as well as public sector enterprises governed by the Public Finance Management Act and the Municipal Finance Management Act (Institute of Directors, 2010:[1]). The King II Report outlined seven characteristics of good corporate governance (institute of Directors, 2010:[1]) presented in Table 4.1.

Table 4.1: Characteristics of good corporate governance

Characteristic	Description
Discipline	A commitment to behaviour that is universally recognised and accepted as correct and proper
Transparency	The ease with which an outsider is able to analyse a company's actions
Independence	The mechanisms to avoid or manage conflict
Accountability	The existence of mechanisms to ensure accountability
Responsibility	Processes that allow for corrective action and acting responsibly towards all stakeholders
Fairness	Balancing competing interests
Social responsibility	Being aware of and responding to social issues

Source: Institute of Directors (2010:[1]) and Vaughn & Ryan (2006:506).

King III

The King III Report became necessary due to the introduction of the new Companies Act of 2008 together with international governance trends. Again,

the King Committee aimed to be a leader of governance internationally through focussing on how a company has both positively and negatively affected the economic life of a community during the year under review. This includes an obligation to report on how the company proposes to enhance the positive effects and limit the negative effects (Price Waterhouse Coopers, 2011:[1]).

The King III Report's focus on leadership, sustainability and corporate citizenship has broadened the scope of corporate governance in South Africa. Furthermore, the King III Report applies to all entities, regardless of the manner and form of incorporation or establishment. Entities are encouraged to disclose which principles and/or practices they have decided not to comply with or to explain their non-compliance. In a bid to improve the level of governance within an organisation, stakeholders are able to comment on or challenge the board of directors of a particular organisation (Price Waterhouse Coopers, 2011:[1]).

A number of key principles are given prominence in the King III Report (Price Waterhouse Coopers, 2011:[1]) as outlined in Table 4.2.

Table 4.2: King III key principles

Principle	Description
Good governance	Good governance is essentially about effective leadership. Leaders need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour with regard to sustainable performance
Sustainability	Sustainability is now the primary moral and economic imperative and it is one of the most important sources of both opportunities and risks for businesses. Nature, society, and business are interconnected in complex ways that need to be understood by decision-makers. Incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves
Innovation	Innovation, fairness and collaboration are key aspects of any transition to sustainability – innovation provides new ways of doing things, including profitable responses to sustainability. Fairness is vital because social injustice is unsustainable, and collaboration is often a prerequisite for large-scale change

Principle	Description
Social transformation	Social transformation and redress are important and need to be integrated within the broader transition to sustainability. Integrating sustainability and social transformation in a strategic and coherent manner will give rise to greater opportunities, efficiencies and benefits, for both the company and society

Source: Price Waterhouse Coopers (2011:[1])

The King III principles-based framework encourages entities to tailor the principles of the King III Code to their unique size, nature and the complexity of their organisation (Price Waterhouse Coopers, 2011:[1]).

The chapters of King III include:

Chapter 1: Ethical leadership and corporate citizenship
Chapter 2: Boards and directors
Chapter 3: Audit committees
Chapter 4: The governance of risk
Chapter 5: The governance of Information Technology
Chapter 6: Compliance with laws, codes, rules and standards
Chapter 7: Internal audit
Chapter 8: Governing stakeholder relationships
Chapter 9: Integrated reporting and disclosure

The King Committee and the King Code have become internationally recognised brands and South African listed companies are regarded by foreign international investors as being among the best governed in the world's emerging economies. Therefore, the King III Report continues to adopt a 'comply or explain' basis for adoption of the code in South African organisations (Institute of Directors, 2009:6).

For the purpose of this study, the focus is on Chapter 8 of King III, as it is the most recent of the King Reports and the most relevant for the practice of communication management in South Africa.

4.4 GOVERNING STAKEHOLDER RELATIONSHIPS ACCORDING TO KING III

The concept of stakeholder has been discussed in Chapter 3, however, it is briefly defined in this chapter again as a reminder of the prominence of stakeholders in the context of this study, as well as the King III Report on Governance. The word 'stakeholder' was first mentioned in the management literature in an internal memorandum at the Stanford Research Institute (now SRI International) in 1963. The intention was that the term 'stakeholder' would generalise the idea of a shareholder as the only group that management (or the board of directors) needs to consider. Stakeholders were originally defined as "those groups without whose support the organization would cease to exist" (Freeman, 1984:31). This traditional viewpoint, where directors of a company are expected to manage the business in the best interest of shareholders, is being questioned more often. Directors are increasingly expected to take into account both shareholders as well as the interests of all other stakeholders. These stakeholders include employees, creditors, consumers, suppliers, the environment and the community, to mention a few.

The more widely accepted and recognised definition of stakeholders was proposed by Freeman (1984:46) who defined a stakeholder in an organisation as "any group or individual who can affect or is affected by the achievement of the organization's objectives." The focus of many increased corporate governance efforts revolves around organisations having to have a wider environmental awareness and concern, as well as having a broader stakeholder, rather than general shareholder focus.

Although communication management may have a role to fulfil in many of the aspects of the King III Report such as ethical leadership and corporate citizenship from an advisory point of view, the governance of risk from an

issue or risk identification and management point of view, as well as integrated reporting from a content management point of view, the focus will be on Chapter 8. This chapter outlines the governing of stakeholder relationships as it has a direct link with communication management and its key tenets. This link is evident in communication management's definition, which makes specific reference to the management of both perceptions and strategic relationship management of stakeholders (Skinner et al., 2008:4).

Chapter 8 of the King III Report, entitled Governing Stakeholder Relationships includes six principles. The principles mainly revolve around stakeholders and reputation, the proactive management of stakeholder relationships, stakeholder engagement, the treatment of shareholders, transparent and effective communication with stakeholders, and dispute or conflict resolution. For each of these principles, specific considerations pertaining to the particular principle are outlined in Chapter 8 of King III.

This section was approached as follows:

- First, each of the principles and related considerations are quoted directly from the King III Report in Table format.
- Secondly, a discussion follows of (1) the implications of these principles for communication management in South Africa and (2) the direct links between the content of each of the principles in relation to the implications highlighted from the theory.
- Thirdly, a summary of the discussions of each of the six principles are provided in table format.

As the stakeholder theory, as discussed in Chapter 1, 2 and 3, provides insights into the topic of stakeholder relationship governance and management, it is referred to by means of the discussion in this chapter as

well. This is necessary to illustrate the relevance of the theory to the principles contained in Chapter 8 of the King III Report on Governance.

4.4.1 Principle 1: Stakeholders and reputation

Table 4.3 outlines the principle around stakeholders and their effect on a company's reputation as contained in Chapter 8 of the King III Report.

Table 4.3: Principle 1 as outlined in the King III Report

PRINCIPLE 1	***The board should appreciate that stakeholders' perceptions affect a company's reputation***
	1. Stakeholders' overall assessments (and therefore aggregate perceptions) of companies, result in the formation of corporate reputations. Reputation is based on how well a company performs compared with the legitimate interests and expectations of stakeholders. There is growing awareness of how important the contribution of reputation is to the economic value of the company.
	2. The gap between stakeholder perceptions and the performance of the company should be managed and measured to enhance or protect corporate reputation and to avoid damage or destruction by company actions. What the company does, and not only what it communicates, ultimately shapes the perceptions of stakeholders. However, communication assists in bridging actual and perceived gaps that may occur and it facilitates a balanced assessment of the company.
	3. In light of the impact that stakeholder perceptions may have on reputation, companies should realise that stakeholder interests and expectations, even if not considered warranted or legitimate, should be dealt with and cannot be ignored.
	4. The board should be the ultimate custodian of the corporate reputation and stakeholder relationships. The company's reputation and its linkage with stakeholder relationships should therefore be a regular board agenda item. The board should take account of and respond to the legitimate interests and expectations of stakeholders linked to the company in its decision-making.
	5. An interest or expectation of a stakeholder is considered to be legitimate if a reasonable and informed outsider would conclude it to be valid and justifiable on a legal, moral or ethical basis in the circumstances.
	6. A stakeholder-inclusive corporate governance approach recognises that a company has many stakeholders that can affect the company in the achievement of its strategy and long-term sustained growth. Stakeholders can be considered to be any group that can affect the company's operation, or be affected by the company's operation. Stakeholders include shareholders, institutional investors, creditors, lenders, suppliers, customers, regulators, employees, unions, the media, analysts, consumers, society in general, communities, auditors and potential investors. This list is not exhaustive.
	7. The board should from time to time identify important stakeholder groupings, as well as their legitimate interests and expectations, relevant to the company's strategic objectives and long-term sustainability.
	8. Stakeholders that could materially affect the operations of the company should be

	identified, assessed and be dealt with as part of the risk management process. These stakeholders should include not only stakeholders who could negatively impact a company, but also stakeholders who could add value to the company by enhancing the wellbeing and sustainability of the company or positively impact on the reputation of the company. For instance, a local community may not affect the operations of the company itself, but the way in which the company impacts the community could affect its reputation.
	9. Companies should take account of the fact that stakeholders' interests in the company are dynamic and subject to change. It is therefore necessary to review the process for identification and responding to the legitimate interests and expectations at least once a year.

Source: Institute of Directors (2009:101)

(i) Principle 1: Discussion and implications for communication management

The King III Report (Institute of Directors, 2009:100-101) highlights that perceptions of stakeholders about a company result in corporate reputation, where reputation is based on how well the company performed compared to the expectations of stakeholders (Reputation management was discussed in Chapter 3). If a gap exists between company performance and the expectations of stakeholders, this gap should be measured and managed. If stakeholder interests and expectations are not legitimate, companies should avoid being ignorant. Discussions around stakeholders should be a regular board agenda item and the interests or expectations of each stakeholder should be considered on a legal, moral and ethical basis. Furthermore, the King III Report follows a stakeholder-inclusive approach, as outlined in Chapter 1, that considers that many stakeholders can affect the company and that these stakeholders should be identified, especially those who are relevant to the long-term sustainability and strategic objectives of the company. This must be done frequently as the interests and expectations of stakeholders are dynamic.

The content of Principle 1, in relation to the theory already discussed in Chapters 1, 2 and 3 is outlined in the next section. In summary, the crux of

this principle revolves around stakeholders and stakeholder relationship management as elements of communication management, as well as reputation and the role of communication management.

(ii) Principle 1: Stakeholders and stakeholder relationship management as elements of communication management

Two of the main aspects highlighted in this principle in Chapter 8 of the King III Report are stakeholders and stakeholder relationship management. Freeman (1984:25) defined stakeholders as those who are affected by and/or can affect the achievement of an organisation's objectives. Jones, Felps and Bigley (2007:137) state in this regard that the organisation is a collection of internal and external stakeholder groups. Freeman (1984:46) argues that organisations are defined by their relationships with these stakeholder groups, and that these stakeholder groups include not only those groups that management think have a stake in the organisation, but also those who decide themselves to take a stake in the organisation. Furthermore, the term 'stake' needs some clarification. Mitchell et al. (1997:859) state that differentiation is needed between groups that have a legal, moral or presumed claim on the company, and groups that have the capacity to affect the company's behaviour. These authors reason that influencers have power over the company, whether or not they have legitimate claims or any claims at all. Claimants have rightful claims, but may or may not have any power to influence the company. Power and legitimacy are distinct, but may overlap at times.

Stakeholder identification, categorisation and prioritisation as discussed in Chapter 3, form an integral part of stakeholder relationship management. Suggestions on how to identify, categorise and prioritise stakeholders are made by authors such as Freeman (1984:52), Grunig and Hunt (1984:141),

Clarkson (1995:107), Donaldson and Preston (1995:66), Mitchell et al. (1997:853), Steyn and Puth (2000:201), Grunig, 2005:778, Rawlins (2006:2), Gregory (2007:65) and Falconi (2009:[14]). Their work with a brief description of what each entails is outlined in Table 4.4.

Table 4.4: Contributions of stakeholder identification, categorisation and prioritisation summarised

Name of model / framework / guideline / process	Author/s	Description
Stakeholder management framework (SMF)	Freeman (1984)	The stakeholder management framework outlines three levels at which the processes used by the organisation to manage relationships with stakeholders being the rational, process and transactional levels. Each level requires different approaches to stakeholder mapping.
Linkages model	Grunig and Hunt (1984)	This model proposes that stakeholders are identified through the type of link they have with the organisation. The linkages include enabling, functions (both input and output), diffused and normative linkages.
Three-part taxonomy	Donaldson and Preston (1995)	The three-part taxonomy is based on the three views of stakeholder theory being instrumental, descriptive and normative.
Primary and secondary stakeholder classification	Clarkson (1995)	The classification of primary and secondary stakeholders has implication for the way in which relationships are formed and maintained.
Stakeholder typology around the attributes of power, legitimacy and urgency Classes of stakeholders	Mitchell et al. (1997)	Power, legitimacy and urgency attributes are used to help identify and prioritise both dependent and influential stakeholders. Linked to this, these authors develop a prioritisation strategy around latent, expectant and definitive stakeholders. These authors further outline a classification of stakeholders.
Types of publics	Steyn and Puth (2000)	These authors outline stages that stakeholders go through in their awareness and level of activity.
Situational theory of publics	Grunig (2005)	The situational theory of publics attempts to explain and predict why some publics (stakeholders) are active and others are passive. This theory can identify which stakeholders will communicate in different ways with the organisation about decisions that affect them.
Four-step process to prioritising stakeholders	Rawlins (2006)	The steps include: Step 1: Identifying potential stakeholders according to their relationship to the organisation.

Name of model / framework / guideline / process	Author/s	Description
		Step 2: Prioritising stakeholders by attributes. Step 3: Prioritising stakeholders by relationship to the situation. Step 4: Prioritising the publics (stakeholders) according to the communication strategy.
Communication strategy typology	Gregory (2007)	This author outlines a communication strategy typology around the model developed by Mitchell et al. (1997) where stakeholders are either informed, consulted, involved or partnered with depending on their level of power, legitimacy and urgency.
GOREL process (Governance of Relationships)	Falconi (2009)	This author describes a process of governing stakeholder relationships (GOREL). This process involves: Step 1: Envisioning Step 2: Identifying and listening to active stakeholders Step 3: Defining specific objectives Step 4: Involving potential stakeholders Step 5: Relating with issue influencers Step 6: Convincing opinion leaders Step 7: Contents, channels and 'spaces' Step 8: Content roll-out Step 9: Evaluation and reset Part of step 2 and 4 is a stakeholder mapping phase which considers a stakeholder's awareness of organisational goals and their interest in relating with the organisation.

Researcher's own construct

As Mahon and Wartick (2003:22) point out, the nature of the interactions stakeholders have with organisations, resulting in relationships with and among stakeholders, all contribute to the development of an organisation's reputation. For this reason, reputation and the role of communication management therein are briefly outlined.

(iii) Principle 1: Reputation and the role of communication management

Reputation is defined as the collection of perceptions and beliefs, both past and present, which reside in the consciousness of a company's stakeholders

(Rayner, 2003:1). Similarly, Marconi (2001:2) defines reputation as the general opinion of the public towards a company. The key aspects of reputation revolve around commitment, company values, involvement, emotions and attachment (Meyer & De Wet, 2007:20). The other elements of reputation mentioned by Bebbington et al. (2008:339,340) were discussed in Chapter 3 and are not repeated here. Reputation begins with communication acts that start from the inside out and which must be consistent (O'Brien, 2006:10). More and more companies are recognising that a good overall reputation is a valuable asset (Dihr & Vinen, 2005:6). From a communication perspective, the management of reputation is heavily influenced by the perceptions of stakeholders. These stakeholder perceptions can be regarded as the domain of communication management (Dihr & Vinen, 2005:7). Furthermore, Mahon and Wartick (2003:22) argue that reputation develops out of the nature of the interactions, or rather relationships, between and among stakeholders in different contexts. These authors further state that reputation is based on past events (over time) and recollections of stakeholders involved with the organisation in certain circumstances. Therefore, the criteria that stakeholders use in assessing reputation can assist the organisation in understanding reputation to a great extent (Mahon & Wartick, 2003:23).

4.4.2 Principle 2: Proactive management of stakeholder relationships

Table 4.5 outlines the principle around the proactive management of stakeholder relationships as described in Chapter 8 of the King III Report.

Table 4.5: Principle 2 as outlined in the King III Report

PRINCIPLE 2	***The board should delegate to management to proactively deal with stakeholder relationships***
	1. Management should develop, for adoption by the board, a strategy and suitable policies for the management of its relations with all stakeholder groupings.
	2. The board should consider from time to time whether it is appropriate to publish its stakeholder policies. If the board decides that it is in the best interest not to publish its stakeholder policies, it should consider whether, apart from any legal requirements, it would be willing to disclose all or any of these to any stakeholders on request.
	3. The board should consider whether it is appropriate to publish a list of its stakeholder groupings (not the names of individual members of any stakeholder grouping) which it intends to deal with on a proactive basis, and the method of engagement.
	4. The board should oversee the establishment of mechanisms and processes that support stakeholders in constructive engagement with the company and the board. These mechanisms and processes should be incorporated in the stakeholder policies.
	5. Constructive engagement is aimed at ultimately promoting enhanced levels of corporate governance. It enables the company and the stakeholders to share their perspectives on the interests of the company. Constructive engagement should not amount to second-guessing by the board or management of the company or permitting interference or undue influence in the running of the company.
	6. Constructive engagement with stakeholders could provide companies with valuable information about stakeholders' views, external events, market conditions, technological advances, and trends or issues. This can assist companies to anticipate, understand, and respond to external changes more efficiently, thereby enabling the company to deal with challenges more effectively.
	7. The board should guard against using legal or other processes to frustrate or block constructive engagement by stakeholders, for instance, by continually compelling stakeholders to resort to courts. This should not prevent the board from resorting to litigation or other dispute resolution mechanisms where appropriate to protect the company's legal interests.
	8. A structured process of engagement between a company and its stakeholders, cognisant of uniform disclosure of information and insider trading restraints imposed by law, has many potential benefits. Structured engagement could be particularly useful when, for instance, preparing for an annual general meeting. It could reduce the risk of confrontation, could prevent the board having to spend unnecessary time in constant interventions by stakeholders, and could mitigate against mischievous action by competitors.
	9. The board should encourage shareholders to attend annual general meetings (AGMs) and other company meetings, at which all the directors should be present. The chairmen of each of the board committees should be present at the annual general meeting.
	10. The board should consider not only formal processes such as the AGM for interaction with its stakeholders. It should also consider informal processes such as direct contact, websites, advertising, or press releases. The formation of stakeholder associations should be encouraged where appropriate.
	11. Stakeholders should consider their responsibilities as stakeholders in the company. Stakeholders should, for instance, be circumspect about making public statements that can damage the interests of the company. Stakeholders should clearly and in a constructive manner communicate to the board about the steps

	they would contemplate if dialogue is considered to have failed. Litigation should be a last resort.
	12. If the board is willing to engage directly with any stakeholder groupings, the representatives of the company and stakeholders must be careful how they deal with information that could be share price sensitive. It is incumbent upon both the company and the stakeholders to familiarise themselves with insider trading laws. Even taking this into account, stakeholders should encourage the company to share information with all stakeholders as soon as possible. Use of SENS, the JSE news service, can ensure that instances of unequal disclosure are minimised. A stakeholder liaison forum, electronic or otherwise, that all stakeholders can access with relative ease, can present or reduce the problem of only certain stakeholders being in possession of inside information.
	13. The board should disclose in its integrated report the nature of its dealings with its stakeholders and the outcomes of these dealings.

Source: Institute of Directors (2009:101)

(i) Principle 2: Discussion and implications for communication management

The King III Report (Institute of Directors, 2009:101-102) states that management should develop a strategy and policies for governing stakeholder relationships. These policies may be published if the board decides to do so, as well as a list of its stakeholder groupings and how it intends to engage with them. Furthermore, mechanisms and processes should be established to assist stakeholders to engage with the company. Environmental scanning and/or formal research should be conducted to understand stakeholders better. Legal and other processes that may aggravate or hinder productive engagement by stakeholders should be avoided. Structured processes for engagement with stakeholders should be initiated and shareholders should be encouraged to attend Annual General Meetings (AGMs). The company may also make use of informal processes to engage with shareholders. Stakeholders should consider their responsibility and engage in a constructive manner with the board about the steps they intend to take if dialogue fails. The access of stakeholders to information should be reasonably equal, especially where the share price may be

impacted upon by such information. The dealings with stakeholders should be disclosed through the company's integrated report.

The central idea of this principle revolves around how communication management acts as catalyst for the pro-active management of stakeholder relationships and this is discussed in the next section.

(ii) Principle 2: Communication management as catalyst for proactive management of stakeholder relationships

Varey and White (2000:10) argue that it is communication management, operating at a strategic level, that is concerned with the management of the relations between the organisation (and management) and its stakeholders (discussed in Chapter 3). Sundaram and Inkpen (2004:370) state that managers must develop relationships that inspire stakeholders and create communities that provide a context in which everyone aspires to do their best to deliver value. They are of the opinion that managers have moral and ethical responsibilities to all stakeholders, and those organisations that treat their stakeholders in a less than ethical or moral manner will not continue in business. Surveys have shown that while the first priority of the stakeholders of a company is the quality of the company's products or services, the second priority is the trust and confidence that the stakeholders have in the company (Institute of Directors, 2009:8).

Stakeholder theory describes what managers actually do with regard to stakeholder relationships, the consequences if managers adhered to stakeholder management principles, and what managers should do when dealing with organisational stakeholders (Donaldson & Preston, 1995:67). Long-term relationship development with primary stakeholders being customers, suppliers, communities and employees, enlarge the set of value-

creating relations further than that which would be likely with exchanges restricted to mere market transactions. In other words, the focus is on relational rather than transactional connections. Relationships require investments by both parties, which comprise a time component as well as reputation to boost the significance of the associations (Hillman & Keim, 2001:127).

4.4.3 Principle 3: Stakeholder engagement

Table 4.6 outlines the principle around stakeholder engagement as described in Chapter 8 of the King III Report.

Table 4.6: Principle 3 as outlined in the King III Report

PRINCIPLE 3	***The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interest of the company***
	1. The law directs the board to act in the best interests of the company and the board should, within these confines, strive to achieve an appropriate balance between the interests of various stakeholders. In doing so, the board should take into account, as far as possible, the legitimate interests and expectations of its stakeholders in its decision-making.
	2. Board decisions on how to balance interests of stakeholders should be guided by the aim of ultimately advancing the best interests of the company. This applies equally to the achievement of the 'triple context' and the notion of good corporate citizenship. This does not mean that a company should and could always treat all stakeholders fairly. Some may be more significant to the company in particular circumstances and it is not always possible to promote the interests of all stakeholders in all corporate decisions. It is important, however, that stakeholders have confidence that the board will consider their legitimate interests and expectations in an appropriate manner and be guided by what is in the best interest of the company.
	3. Although the company has the primary governance duty of managing the relationships with its stakeholders, the stakeholders should also, where possible, accommodate the process. The board cannot achieve successful interaction with the company's stakeholders unilaterally. Constructive engagement requires the cooperation of the stakeholders.
	4. Engagement is more likely to succeed in achieving a satisfactory result when stakeholders actively support constructive engagement and the principles of good governance (including that of good corporate citizenship), appreciate the legal duties of the board, consider the best interests of the company, take a longer-term view and are not solely focussed on advancing their own interests.

Source: Institute of Directors (2009:102)

(i) Principle 3: Discussion and implications for communication management

The King III Report (Institute of Directors, 2009:102) maintains that the law directs the board to act in the best interests of the company, even in dealing with balancing stakeholder interests. Furthermore, the King III Report appeals to stakeholders to assist the process of stakeholder relationship building through keenly supporting productive efforts by the company.

Principle 3 focuses on the balancing of stakeholder interests, where the stakeholder theory, discussed in Chapter 3, provides some insight into this. Stakeholder engagement as key tenet of communication management are also outlined and discussed in the next section.

(ii) Principle: 3: Stakeholder theory as guide to balancing stakeholder interests

Decision-making with regard to stakeholder relations can be filled with tension. Trade-offs between organisational interests and stakeholder interests, as well as those between or among the interests of different stakeholders, inherently involve the allocation of benefits and burdens among human beings (Jones et al., 2007:141).

Economists see the firm (company) as a nexus of contracts and relationships. The key characteristic of stakeholders is that they are part of contractual relationships of a company, whether explicit or implicit (Hendry, 2001:225). Consideration of the non-economic and legal aspects of relationships needs to be considered. Therefore, the company can rather be described as a nexus of contracts as a dynamic system of relationships between moral actors, each of which relationships are then characterised by specific legal and economic

as well as social characteristics (Hendry, 2001:226). This approach is significant, as Hendry (2001:225) argues that companies are social, economic and legal constructions where all these aspects have to be taken into account if the responsibilities of management are to be fully understood.

Similarly, Jensen (2001:298) argues that for the board of directors to act in the best interest of the company, the value of the company must be maximised as the main corporate objective. As the stakeholder theory does not ignore this responsibility of management, but rather expands on it, it becomes relevant in this context again.

The stakeholder theory, as discussed in Chapter 3, states that managers should make decisions that take cognisance of the interests of all stakeholders. Letza et al. (2004:251) contend by saying that a company should serve the multiple interests of stakeholders, rather than shareholders alone. This, they believe, will make the company more legitimate. At the same time, a company cannot maximise value if it ignores the interests of its stakeholders. However, as mentioned in the King III Report, Sundaram and Inkpen (2004:371) assert that managing on behalf of all stakeholders is unrealistic and impractical. In this regard, Jensen (2001:298) maintains that this view does not include how serving the multiple interests of stakeholders should be done, and leaves managers unaccountable for their actions. Jensen (2001:298) offers a possible solution to this dilemma which is called enlightened value maximisation. Enlightened value maximisation acknowledges that it is difficult to communicate with and motivate the organisation's managers, employees and partners (as stakeholders) to maximise organisational value. The reason for this is that value maximisation is not a strategy or a purpose, but rather a scorecard. These particular stakeholders should be given structure to understand what it means to maximise value as a guideline (Jensen, 2002:245).

Complementing the enlightened value maximisation notion is the enlightened stakeholder theory. This theory, as an extension of the stakeholder theory, accepts maximisation of the long-run value of the company as the criterion for making the required trade-offs among stakeholders. Stakeholder theorists, in this instance, offer processes and audits to measure and evaluate the organisation's management of its relations with all important stakeholders (Jensen, 2002:246).

(iii) Principle 3: Stakeholder engagement as key tenet of communication management

In a bid to achieve long-term value for the company, while balancing the interests of multiple stakeholders, communication management offers strategies, based on interpersonal relationship building, to engage stakeholders. These include approaches such as access, positivity, openness, assurances, networking and the sharing of tasks (Grunig & Hon, 1999:140). Stakeholder engagement is a process of involving stakeholders, which includes identifying and assessing their current levels of engagement (Sloan, 2009:27). Stakeholder involvement, which is also referred to as stakeholder inclusion by Wheeler and Sillanpää (1998:204-205), includes two principles (See Chapter 2). The first is the alignment of values between the organisation and stakeholders and the second is dialogue-based empowered relationships. The successful engagement of stakeholders, through communication management, may result in continued support and participation from stakeholders (Hillman & Keim, 2001:127).

4.4.4 Principle 4: Shareholder treatment

Table 4.7 outlines the principle around shareholder treatment as discussed in Chapter 8 of the King III Report.

Table 4.7: Principle 4 as outlined in the King III Report

PRINCIPLE 4	***Companies should ensure the equitable treatment of shareholders***
	1. Shareholders of the same class of shares issued should be treated equitably.
	2. Minority shareholders should be protected from abusive actions by controlling shareholders.

Source: Institute of Directors (2009:103)

(i) Principle 4: Discussion and implications for communication management

A shareholder can be defined as an individual, institution, firm or other entity that owns shares in a company. The term "shareholder" is, according to Henry (2001:226), insufficient to capture the people and relationships involved in share ownership. Many shares today are not held by individual shareholders but by financial institutions, pension funds and insurance companies that hold shares as trustees for individual beneficiaries where their management is delegated to professional fund managers. This means that the company is not only accountable to, and has to communicate with individuals, but larger entities as well.

Although shareholders can be seen as a stakeholder group, they are distinct from other stakeholder groups as they invest their money to provide risk capital for the company and (in many legal jurisdictions) shareholders' rights are enshrined in law, whereas those in the wider group of stakeholders are not. Shareholders are being privileged over other stakeholders as they are the recipients of the residual free cash flow (being the profits remaining once other stakeholders have been paid). This makes the compliance with Principle 3 difficult, which requires companies to balance the interests of all stakeholders, in the best interest of the company. However, shareholders have a vested interest in trying to ensure that resources are used to maximum

effect, which in turn should be to the benefit to society as a whole (Mallin, 2007:49) and thus the other stakeholders of the company. Companies operate in this wider society and not within a defined corporate vacuum. Therefore, the views and interests of various stakeholders should be taken into account in addition to those of shareholders as highlighted in 4.5.3. The implication of this is that stakeholders, including shareholders and their interests, should be identified, categorised and then prioritised as discussed in 4.5.1. However, shareholders can ensure that the board of the company accounts for its actions (Mallin, 2007:58). Hampel (1998:12) states in this regard, that the board of the company is responsible for relations with stakeholders, but they are accountable to shareholders.

The ‘stakeholder inclusive’ approach, also discussed in Chapter 1, in practice means that the legitimate interests and expectations of stakeholders are considered when deciding on the best interests of the company. The integration and trade-offs between various stakeholders are then made on a case-by-case basis to serve the best interests of the company. The shareholder, on the premise of this approach, does not have a predetermined place of precedence over other stakeholders. However, the interests of the shareholder or any other stakeholder may be afforded precedence based on what is believed to serve the best interests of the company at that point in time.

The best interests of the company should be interpreted within the parameters of the company as a sustainable enterprise and the company as a responsible corporate citizen (Institute of Directors, 2009:9). Jensen (2001:310) states that although shareholders are not necessarily a special stakeholder group that ranks above all others, long-term share value is an important determinant of the total long-term company value. This is the ultimate objective of the company and in line with the board and management’s focus to act in the best

interest of the company. Put differently, Sundaram and Inkpen (2004:371) state: "Maximize the value of your shareholders' wealth in the long run, and you will maximize the value of the firm", which ultimately leads to greater value for all stakeholders.

As the number and diversity of stakeholders increase, communication management must become a leadership profession and take on the larger role of leading change in organisations. This involves becoming part of the corporate core, being engaged in the fundamental business model, brand, culture, policies and values, as well as building relations and generating collaborative influence (Novelli, 2008:270).

4.4.5 Principle 5: Transparent and effective communication with stakeholders

Table 4.8 outlines the principle around the transparent and effective communication with stakeholders as outlined in Chapter 8 of the King III Report.

Table 4.8: Principle 5 as outlined in the King III Report

PRINCIPLE 5	***Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence***
	1. *The stakeholder-inclusive approach, aims, among other things, to stimulate appropriate dialogue between the company and its stakeholders. Such dialogue can enhance or restore stakeholder confidence, remove tensions, relieve pressure on company reputation, and offer opportunities to align expectations, ideas and opinions on issues.*
	2. *Relationships with stakeholders can only be built and maintained if the company provides complete, timely, relevant, accurate, honest and accessible information.*
	3. *The degree of corporate transparency and communication should, however, be considered with reference to the company's stakeholder policies, any relevant legal requirements, and the maintenance of the company's competitive advantages. The decision on the level of disclosure of information and its timing is a strategic one.*

	4. The company should implement processes to promote appropriate disclosure. However, the board should take account of its duty to protect the long-term sustainability of the company when it considers communication about potentially adverse situations facing the company that may reasonably be corrected in the short term.
	5. All communication to stakeholders should use clear and simple language and should set out all relevant facts, both positive and negative. It should be structured to enable its target market to understand the implications of the communication. Companies should use communication channels that are accessible to its stakeholders.
	6. The board should, as part of the company's stakeholder policies, adopt communication guidelines that support a responsible communication programme. These guidelines define the respective responsibilities of the board and management with regard to stakeholder communication.
	7. The board should be concerned that the stakeholder communication programme provides that all who have a right to know are properly informed, that effective feedback systems exist, that the board is alerted in a timely fashion to matters that should be communicated to stakeholders, and that processes exist to deal rapidly and sensitively with any crisis.
	8. A company should consider disclosing in its integrated report the number and reasons for refusals of requests for information that were lodged with the company in terms of the Promotion of Access to Information Act, 2000. Disclosure must be considered having regard to whether divulging the information will detrimentally affect the company or breach confidentiality or any agreement of which it is a party.

Source: Institute of Directors (2009:103)

(i) Principle 5: Discussion and implications for communication management

Business is primarily a function of relationships with key stakeholders (Scott & Lane, 2000:53). Similarly, Grunig et al. (1992:71-77) regard the strategic-constituencies perspective (discussed in Chapter 1) as one of the theories that explain business effectiveness, in that it focuses on interdependencies as part of the business environment, including the interests and expectations of stakeholders. How attentive an organisation is to stakeholder relationships in terms of needs, beliefs and values coupled with their responsiveness to stakeholder demand, varies greatly from one organisation to the next (Scott & Lane, 2000:53). Stakeholder engagement is defined as "practices that the organisation undertakes to involve stakeholders in a positive manner in

organisational activities" (Greenwood, 2007:318). Therefore, transparent and effective communication (being accurate and accessible) with these stakeholders makes perfect sense (Bandsuch, Pate & Thies, 2008:111).

The focal areas of Principle 5 revolve around transparency and trust in stakeholder relationship management, which are briefly outlined in the next section.

(ii) Principle 5: Transparent stakeholder communication

Transparency, as highlighted in Chapter 1, is defined as information that is freely available to those who are influenced by decisions, and that implies sufficient information is supplied in easily comprehensible forms and media. This requires that decisions are made and enforced in a manner that follows rules and regulations (Kim, Halligan, Cho, Oh & Eikenberry, 2005:649). The word 'transparency' carries with it a great selection of ethical and political associations, including honesty, truthfulness and openness (Best, 2005:142). Transparency, according to Bandsuch et al. (2008:100) is determined by the accuracy and accessibility of the information businesses provide to their stakeholders. It can be active, and passive unilateral or reciprocal. It is active where the information is actively disclosed, passive, where the information is available, but revealed only upon request. Unilateral transparency is found where the information is revealed from the business to the stakeholders and reciprocal where the business is responding to the expectations of the stakeholders. In all cases, the information must be accurate and accessible. Accurate information reliably represents the company's situation through comprehensive and relevant data. Accessible information is available and easy for different stakeholder groups to obtain. The average stakeholder should be able to understand the information and comprehend its importance (Bandsuch et al., 2008:111).

According to Borgia (2005:24), transparent communication with stakeholders requires a focus on accurate and understandable discussions of the stakeholder value drivers. The stakeholder value drivers are the factors that signify the difference between the success and failure of the business. Transparency is the catalyst for trust, and supports the demand for greater honesty and disclosure. Bandsuch et al. (2008:114) argue that it is not a course of action, but a vibrant requirement for stakeholder communication and interface between the company's management and stakeholders beyond the shareholder and investor.

(iii) Principle 5: Sustainable relationships through trust

Peter Drucker observed that trust is an essential commodity at all levels of business operations and relationships. It must be reciprocal and is an indispensable facet of the free market. When there are limited levels of trust, the levels of confidence and commitment by stakeholders also become limited. A lack of trust exists in business and is further reduced by a larger atmosphere of distrust within a society (Bandsuch et al., 2008:99-100). Trust is regarded as an international business imperative and affects a business' ability to develop and sustain relationships with partners and stakeholders.

The International Association of Business Communicators (IABC) designed and validated an organisational trust model that identified competency, openness, concern for stakeholders, shared goals, reliability, frequency of interactions, rewards and sanctions as significant influences upon trust (Gillis, 2003:10). In the 2000 IABC Research Foundation study entitled "Measuring organizational trust: a diagnostic survey and international indicator" by Shockley-Zalabak, Ellis and Cesaria (2000), it was found that trust exists on multiple levels namely individual, group and institutional level. It is further rooted in culture and communication and is dynamic (Gillis, 2003:11). This is

significant in the context of Chapter 8 of the King III Report and for communication management as a discipline and practice, as stakeholders appear either as an individual, group or institution where the communication with these levels in terms of transparency and effectiveness may be very different.

4.4.6 Principle 6: Dispute (or conflict) resolution

Table 4.9 outlines the principle around dispute or conflict resolution with stakeholders as outlined in Chapter 8 of the King III Report.

Table 4.9: Principle 6 as outlined in the King III Report

PRINCIPLE 6	***The board should ensure disputes are resolved as effectively, efficiently and expeditiously as possible***
	1. Disputes (or conflict) involving companies are an inevitable part of doing business and provide an opportunity not only to resolve the dispute at hand, but also to address and solve business problems and to avoid their recurrence.
	2. It is incumbent upon directors and executives, in carrying out their duty of care to a company, to ensure that disputes are resolved effectively, expeditiously and efficiently. This means that the needs, interests and rights of the disputants must be taken into account. Further, dispute resolution should be cost effective and not be a drain on the finances and resources of the company.
	3. Alternative dispute resolution (ADR) has been a most effective and efficient methodology to address the costly and time consuming features associated with more formal litigation. Statistics related to success range from a low of 50%, for those situations in which the courts have handed down a case for ADR, to an average of 85% -90% where both parties are willing participants.
	4. ADR has become the intervention of choice in many instances and so it is appropriate for specialists to improve the overall rate of intake and success. Clearly, the best outcome would be to increase the overall satisfaction with the process and outcome of successful resolution.
	5. Disputes may arise either within a company (Internal disputes) or between the company and outside entities or individuals (external disputes). The board should adopt formal dispute resolution processes for internal and external disputes.
	6. Internal disputes may be addressed by recourse to the provisions of the Act and by ensuring that internal dispute resolution systems are in place and function effectively.
	7. External disputes may be referred to arbitration or a court. However, these are not always the appropriate or most effective means of resolving such disputes. Mediation is often more appropriate where interests of the disputing parties need to be addressed and where commercial relationships need to be preserved and even enhanced.

	8. A distinction should be drawn between processes of dispute resolution (litigation, arbitration, mediation and others) and the institutions that provide dispute resolution services.
	9. In respect of all dispute resolution institutions and regardless of the dispute resolution process or processes adopted by each, an indispensable requirement is its independence and impartiality in relation to the parties in dispute.
	10. The courts, independent mediation and arbitration services (not attached to any disputing parties) and formal dispute resolution institutions created by statue are empowered to resolve disputes by mediation or conciliation and by adjudication. Their effective use should be ensured by companies.
	11. Successful resolution of disputes entails selecting a dispute resolution method that best serves the interests of the company. This would, in turn, entail giving consideration to such issues as the preservation of business relationships and costs, both in money and time, especially executive time.
	12. Mediation is often suggested as an ADR method with the assumption that the parties are willing to engage fully in the process. A process of screening is undertaken by many mediators, which excludes those who fall short of the criteria of will and capacity.
	13. It is also important to recognise that the use of mediation allows the parties to create options for resolution that are generally not available to the parties in a court process or in arbitration. Further, the Act makes provision for alternative dispute resolution processes to be conducted in private.
	14. Mediation is not defined in the Act. The concept has an accepted meaning in practice in South Africa. Mediation may be defined as a process where parties in dispute involve the services of an acceptable, impartial and neutral third party to assist them in negotiating a resolution to their dispute by way of a settlement agreement. The mediator has no independent authority and does not render a decision. All decision-making power in regard to the dispute remains with the parties. Mediation is a voluntary process both in its initiation, its continuation and its conclusion.
	15. Similarly, conciliation is not defined in the Act. Conciliation is, like mediation, a structured negotiation process involving the services of an impartial third party. The conciliator will, in addition to playing the role of a mediator, make a formal recommendation to the parties as to how the dispute can be resolved.
	16. Once again, adjudication is not defined in the Act, but the process will not differ significantly from arbitration.
	17. In selecting a dispute resolution process, there is no universal set of rules that would dictate which is the most appropriate method. Each case should be carefully considered on its merits and, at least, the following factors should be taken into account: *a. Time available for the resolution of the dispute. Formal proceedings, and in particular court proceedings, often entail procedures lasting many years. By contrast, alternative dispute resolution (ADR) methods, and particularly mediation, can be concluded within a limited period of time, sometimes within a day.* *b. Principle and precedent. Where the issues in dispute involves a matter of principle and where the company desires a resolution that will be bending in relation to similar disputes in the future, ADR may not be suitable. In such cases court proceedings may be more appropriate.* *c. Business relationships. Litigation and processes involving an outcome imposed on both parties can destroy business relationships. By contrast mediation, where the process is designed to produce a solution, most*

	satisfactory to both parties (a win-win resolution), relationships may be preserved. Where relationships and particularly continuing business relationships are concerned, therefore, mediation or conciliation may be preferable. *d. Expert recommendation. Where the parties wish to negotiate a settlement to their dispute but lack the technical or other expertise necessary to devise a solution, a recommendation from an expert who has assisted the parties in their negotiations may be appropriate. This process would be termed conciliation.* *e. Confidentiality. Private dispute resolution proceedings may be conducted in confidence. Further, the Act makes provision for alternative dispute resolution processes to be conducted in private.* *f. Rights and interests. It is important in selecting a dispute resolution process to understand the fundamental difference it has to adjudicative methods of dispute resolution (court proceedings, arbitration and adjudication). The adjudicative process involves the decision-maker imposing a resolution of the dispute on the parties after having considered the past conduct of the parties in relation to the legal principles and rights applicable to the dispute. This inevitably results in a narrow range of possible outcomes based on fundamental considerations of right and wrong. By contrast, mediation and conciliation allow the parties, in fashioning a settlement of their dispute, to consider their respective needs and interests, both current and future. Accordingly, where creative and forward-looking solutions are required in relation to a particular dispute and particularly where the dispute involves a continuing relationship between the parties, mediation and conciliation are to be preferred.*
	18. Mediation and conciliation require the participation and presence of persons empowered and mandated to resolve the dispute.
	19. The board should select the appropriate individual(s) to represent the company in alternative dispute resolution (ADR) processes.
	20. The courts will enforce an ADR clause to resolve a dispute providing all are subject to an agreed set of rules and practices such as the place and language of the process.
	21. Contracting parties who are attuned to the fact that a dispute will be administered and resolved by a third party are naturally inclined to resolve it themselves. If, for example, the ADR processes are made subject to the rules of the Arbitration Foundation of Southern Africa (AFSA), it will be administered by AFSA. If the ADR processes are arbitrary, a recalcitrant party in bad faith may be able to frustrate the process.

Source: Institute of Directors (2009:104-106)

(i) Principle 6: Discussion and implications for communication management

The King Report III (Institute of Directors, 2009:104-105) provides guidelines on the handling of disputes through alternative dispute resolutions and mediation, as well as the handling of legal processes. The purpose of this

section is not to explore the legalities with regard to disputes with stakeholders, but rather to determine how it can be managed or handled before a legal process is followed.

Stakeholders and stakeholder groups have varying degrees of power as discussed in Chapter 3. Power imbalances often exist between these stakeholders and stakeholder groups and even the organisation and these stakeholders and stakeholder groups. These imbalances include (Ansell & Gash, 2007:551):

- Organised stakeholder groups that do not represent individual stakeholders.
- Some stakeholders may not have the skill and expertise to engage in discussion about highly technical problems.
- Some stakeholder groups do not have the time, energy or liberty to engage in time-intensive processes.

These imbalances necessitate collaboration and a moral intent on the part of the company to assist these stakeholders to overcome these problems. This collaboration can typically be facilitated by communication management. Ehling (1992:623) noted that one of the roles of communication management is dispute resolution, which appreciates a vital feature of relationships between the organisation and its environment. This environment is characterised by cooperation between groups that disagree, and far-reaching and comprehensive mutual communication is needed.

Moreover, when a dispute arises between the organisation and a stakeholder or stakeholder group, conflict arises. Communication management offers strategies for conflict resolution such as the integrative approach, the distribute approach and the dual concern approach (Grunig & Hon, 1999:16-17). For any of these strategies to be successful, long-term relationships and

relationship management with these stakeholders are necessary (Hagan, 2007:443).

In conclusion to this discussion, the six principles outlined in Chapter 8 of King III provide details on the management of stakeholder relationships. This section highlighted the implications of these six principles for communication management, as well as the contribution communication management can make in this regard. To obtain a clear overview of the principles of Chapter 8 of King III and the implications for communication, a summary is provided in section 4.5.

4.5 SUMMARY OF THE KING III REPORT AND THE IMPLICATIONS FOR COMMUNICATION MANAGEMENT

Table 4.10 provides an overview of the previous discussion highlighting the central theme of each of the principles contained in Chapter 8 of the King III Report, coupled with the key concept of each of these principles, followed by a brief summary of the implications for communication management. This is necessary to obtain a more holistic view of the Chapter 8 Principles and the implications for South African business and communication professionals. In the context of this study, this summary, in conjunction with the theory discussed in Chapters 2 and 3, provides the platform for the analysis of the global communication management practices and trends, which forms Chapter 5.

Table 4.10: Overview of the King III Report and its implications for communication management

KING III PRINCIPLE	CENTRAL THEME	KEY CONCEPTS	IMPLICATIONS FOR COMMUNICATION MANAGEMENT
The board should appreciate that stakeholders' perceptions affect a company's reputation	Stakeholders and reputation	• Stakeholder/publics • Stakeholder perceptions • Reputation • Stakeholder interests and expectations • Stakeholder inclusive approach • Stakeholder identification, classification/categorisation and prioritisation • Stakeholder relationship management	Stakeholder relationship management (SRM) is central to communication management where SRM includes identification, categorisation and prioritisation. Various models and processes exist in the communication management theory to successfully identify, classify and prioritise stakeholders and consider their interests and expectations. This should be approached in a structured and scientific fashion. This impacts reputation. Stakeholder perceptions, which influence reputation, are central to communication management and the management of these perceptions is a central function of this discipline.
The board should delegate to management the responsibility to proactively deal with stakeholder relationships	Pro-active management of stakeholder relationships	• Stakeholder relationship strategy • Constructive engagement • Formal and informal interaction with stakeholders • Stakeholder responsibilities • Sensitive information • Integrated reporting	Communication management may be regarded as a catalyst for proactive stakeholder relationship management and constructive engagement. Furthermore, communication management has the ability to formulate a stakeholder relationship strategy, devising formal and informal interaction platforms to engage with stakeholders. A policy regarding the handling of sensitive information is necessary. Finally, communication management, with its role and experience with annual reports, has an important role to play in the drafting of the integrated report.
The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interest of the company	Stakeholder engagement	• Company accountability • Stakeholder responsibilities • Stakeholder engagement strategy	Stakeholder engagement comprises the practices that are undertaken by an organisation to involve stakeholders in a positive way in the activities of the organisation. For this to happen, a relationship needs to exist between the organisation and its stakeholders which are based on trust. This trust in turn is achieved through honest and open communication addressed in the next principles through transparent and effective communication. In this context stakeholder are able to have an understanding of what the organisation is accountable for, as well as what their responsibilities as stakeholders are i.e. mutual understanding.

Table 4.10: Overview of the King III Report and its implications for communication management

KING III PRINCIPLE	CENTRAL THEME	KEY CONCEPTS	IMPLICATIONS FOR COMMUNICATION MANAGEMENT
Companies should ensure the equitable treatment of shareholders	The treatment of shareholders	Equitable treatment of shareholders	Shareholders invest in companies and can thus bring the board of the company to account for their actions. The stakeholder inclusive approach does not place the shareholder above any other stakeholders. However, long-term share value is important as a determinant of the long-term company value, which will benefit not only shareholders, but other stakeholders as well. Thus, engagement with shareholders (minority shareholders as well) is as important as engagement with stakeholders.
Transparent and effective communication is essential for building and maintaining trust and confidence	Transparent and effective communication with stakeholders	• Dialogue • Alignment of expectations • Stakeholder trust and confidence • Transparency and disclosure • Information (complete, timely, relevant, accurate, honest, accessible) • Disclosure processes • Use of language (clear and simple) • Responsible communication programme • Crisis communication • Feedback systems • Promotion of the Access to Information Act, 2000 (reporting of refusals of requests for information)	Communication management should ensure that its strategy includes a focus on stakeholder relationship building and engagement with an emphasis on building trust and confidence. Platforms should be established to ensure that dialogue takes place between the organisation and its stakeholders, which in turn will provide the framework within which the organisation and stakeholders may be able to align their values and expectations. The handling of information and language should be carefully considered as part of a responsible communication programme and where possible, policies and practical guidelines should support organisation-wide communication. Part of the creation of platforms for transparent communication and dialogue are clearly identifiable and streamline feedback mechanisms. Finally, a crisis communication plan should form part of the communication management strategy to avoid serious damage to both stakeholder relationships and ultimately organisational reputation.

Table 4.10: Overview of the King III Report and its implications for communication management

KING III PRINCIPLE	CENTRAL THEME	KEY CONCEPTS	IMPLICATIONS FOR COMMUNICATION MANAGEMENT
The board should ensure disputes are resolved as effectively, efficiently and expeditiously as possible	Dispute or conflict resolution	• Dispute resolution • Conflict resolution	As part of stakeholder identification, categorisation/classification and prioritisation, it is possible for the organisation to anticipate conflict situations with certain stakeholders or stakeholder groups. Collaboration is necessary to assist the organisation and stakeholder to overcome their problems. One of the key roles of communication management is dispute resolution, and well as strategies for conflict resolution.

Researcher's own construct

4.6 CONCLUSION

This chapter provided an overview of corporate governance, from both a local and global perspective. It provides the context within which the King III Report on Governance for South Africa was developed. Chapter 8 of this report provides the platform for the discussion on the stakeholder concept, as well as stakeholder relationship management and also highlights the implications for communication management in South Africa. The overview of corporate governance and stakeholder relationship management, according to the King III Report on Governance further informed the interview schedule used in exploring the view of senior communicators (see Chapter 6).

Six themes were identified from the analysis of the King III Report, Chapter 8 principles that entail that stakeholders are linked with organisational reputation, that stakeholder relationships needs to be managed proactively, that stakeholders should be engaged, that shareholders should be treated equally, that stakeholder relationship management requires transparent and effective communication and finally, that dispute resolution or crisis management is needed as the ineffective management of stakeholder relationships may lead to issues.

The implications for communication management and its possible role in enhancing corporate governance emphasise the responsibility to make the board of directors or management aware of how stakeholders view the organisation. This responsibility includes how best to communicate with stakeholders, as this has implications for the reputation of the organisation.

Knowledge of the stakeholders themselves is important to build and maintain relationships. Various ways exist to identify and classify stakeholders as outlined in Chapter 3. Communication professionals are in the ideal position to

have a deeper understanding of stakeholder interests and expectations, and can therefore assist the company in aligning company strategy and stakeholder expectations with each other.

The role and contribution of communication management with regard to corporate governance are explored globally to obtain an understanding of the practices and trends in other parts of the world to gain an international perspective on how communication professionals may be able to assist companies more effectively in managing stakeholder relationships according to the King III Report on Governance.