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Reputation at risk

Nothing is more upsetting than a bully: the kid at school who pushed you around to extort your lunch. The one who laughed when you threatened to report him or her because mom or dad was not only on the parents' committee but their company was the main school donor. This feeling of powerlessness continues later in life when you are forced to use the "services" of companies that have a monopoly. You pay a lot of money, knowing full well that you have been ripped off.

A case in point is ArcelorMittal SA (Amsa). Few companies display the amount of arrogance and disrespect the steel maker is demonstrating to its stakeholders and the general public. Does such a corporate attitude affect the company's reputation? Certainly, but does Amsa care, considering steel demand, particularly from Asia, is at a record high? A rising share price and good returns: isn't that all a company and its shareholders need?

Amsa's error lies in thinking that its continued silence on issues, its lack of transparency and its one-sided interpretation of governance principles will be ignored by those looking for a good return on investment.

Three factors determine the extent to which a company exposes itself to reputational risk: how far the reputation reflects the reality; how external beliefs and expectations change; and the quality of internal co-ordination in response to the challenges.

Amsa represents the steel industry in that 76% of industry media coverage focuses on it, which in essence makes it a monopoly, not only in commercial terms, but in media terms. Volumes of coverage are low to average, indicating that, apart from corporate results, the company has no intention of communicating what it does or intends. Also, the spikes in coverage are all negative, such as in September 2009, when Harmony and DRD took Amsa to the competition commission over the steel price. In January 2010, what started out as positive coverage on proposed co-operation with BHP Billiton turned negative when talks failed.

It has been one crisis after another. First, the strangely missed deadline over the conversion of Sishen mining rights. Then the threat of closing down the Saldanha plant unless Kumba gave in to its demands, then the controversial offer to purchase Imperial Crown Trading for R800m while rewarding the owners with a lucrative black economic empowerment (BEE) deal. The company has remained silent despite important shareholders such as the Public Investment Corp, Sanlam and Old Mutual raising concerns about the legality of the deal. The PIC's comments on the perceived failure of CEO Nku Nyembezi-Heita to protect a significant part of its business strategy are a clear indication of who eventually might pay the price for this scandal.

I see classic symptoms of a company that has no idea of how to deal with reputational issues, and this could be because its size and influence never required such focus. In terms of share of voice, the percentage relating to how much a company communicates to the media has dropped from 34% last year to virtually zero, with significant "no comment" throughout.

Amsa has failed to realise that beliefs and expectations have changed. The days of a quick, legally compliant BEE deal to satisfy government are over. Stakeholders expect more. Amsa has also upset many people. The ANC Youth League will push for the nationalisation of the steel industry. The ANC will look at legislation to institute a more "developmental" business strategy for companies, and investors will look beyond the numbers to balance ethics and economics. The company might look at options in Zimbabwe to counterbalance the hostility it faces in SA, but it is not too late to turn things around here. Does Amsa care? ■

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Few firms display the arrogance ArcelorMittal has shown to shareholders, [but] the days of a quick BEE deal to satisfy government are over