The Importance of Issues Management in International Mergers and Acquisitions

Mark Chong

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1206
Introduction

Issues management is “the strategic use of issues analysis and strategic responses to help organizations make adaptations needed to achieve harmony and foster mutual interests within the communities in which they operate” (Heath, 1997, p. 3). It seeks to build, maintain and repair relationships with an organization’s stakeholders by keeping surveillance for threats and opportunities in the environment that can affect success in achieving organizational mission and goals (Heath, 2002). Accordingly, organizations modify corporate policy, shape legislation or influence public opinion to synchronize themselves with the prevailing or emerging climate of public opinion and sensitivity (Heath & Nelson, 1986, p. 21).

According to Crable and Vibbert (1985), “an issue is created when one or more human agents attach significance to a situation or perceived “problem” (p. 5). Thus, issues can be said to only exist when they are labeled as such by human agents and then developed through claims – an activity which includes compelling framing of an issue, effective manipulation of symbols, and the generation of media publicity by advocates (Hallahan, 2001). For example, the longstanding manufacture of tobacco products did not become a public issue until the 1990s, when teenagers became the targeted customers. It was not until major publics decided to attach significance to the question that it became a major issue (Botan & Taylor, 2004). Ultimately, an advocate’s “success” depends on the issue’s inherent social significance, complexity, temporal relevance, and categorical cadence (i.e. how similar issues have been resolved in the past) (Cobb & Elder, 1972). If an advocacy group can gain a degree of public approval and hence legitimacy for an issue,
then it might succeed in legitimating the use of the power which derives from public support of the issue (Henderson, 2005).

For issues management to be successful, “a shared understanding must be created between all stakeholders” (Henderson, 2005, p. 124). For example, Taylor, Vasquez and Doorley (2003) advocate an engagement approach that emphasizes active dialogue and engagement between an organization and its publics as the most effective way to manage issues. “Engagement” specifically means that organizations involve their stakeholders in the decision-making process (Taylor et al., 2003). In acknowledging the symbiotic relationship between organizations and their environments and publics, the engagement approach to issues management shares similarities with the relational management perspective in public relations, which situates the organization-stakeholder relationship\(^1\) at the center of public relations practice (Broom, Casey & Ritchey, 1997). Proponents of the relational management approach believe that the convergence of organizational and public interests provides both parties with the greatest opportunity for communication-based efforts to resolve issues (Taylor et al., 2003). The relational perspective is thus “consistent with the notion that public relations initiatives should generate understanding and benefit both for organizations and publics” (Ledingham, 2003, p. 182). Indeed, several scholars (e.g. Botan, 1992; Taylor, 2000) view public relations as the use of communication to establish, develop and negotiate relationships between organizations and their strategic publics.

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\(^1\) Broom et al. (2000) suggested that “relationships consist of the transactions that involve the exchange of resources between organizations…and lead to mutual benefit, as well as mutual achievement” (p. 91).
The importance of communication in building, maintaining and repairing organizational-public relationships cannot be over-stated (Broom, Casey & Ritchey, 1997). Communication provides the means and tools for the potential avoidance and resolution of conflict (Taylor et al., 2003). Ongoing communication is “especially important because it helps to develop the stable, long-term relationships that an organization needs to build support from stakeholders and to manage conflict when it occurs” (Taylor et al., 2003, p. 261).

The relational perspective is akin to the two-way symmetrical model of public relations (Grunig & Hunt, 1984), as the organization is as likely to be influenced by the receiver’s communication. More specifically, two-way symmetrical public relations involves the use of “bargaining, negotiating, and strategies of conflict resolution to bring about symbiotic changes in the ideas, attitudes, and behaviors of both the organization and its publics” (Grunig et al., 1995, p. 169). While persuasion forms the premise of the press agentry and two-way asymmetrical models, the concepts of interdependence, equality, and understanding form the premise of the two-way symmetrical model (Grunig, 1989; Karlberg, 1996). Hence, it has been enshrined as one of the general principles in the framework of excellent public relations (Vercic, Grunig & Grunig, 1996) and is deemed to be the most ethical approach to public relations (Grunig & Grunig, 1992). Loh and Chong (2005) have proposed that two-way symmetrical public relations shares traits with the concept of deliberation, which includes mutual respect and the acceptance of diverse and even opposing views from all participants (see Fishkin, 1991).

Over time, effective management of organizational-public relationships based on mutually beneficial interests and goals can result in mutual understanding and benefit for
both parties (Ledingham, 2003). However, the history of organization-public relationships affects how stakeholders interpret current events or interactions in the relationship. Thus, current events are viewed within the historical context of the relationship and not in a vacuum (Ledingham, Bruning & Wilson, 1999). A good relationship history acts as a “reserve of goodwill” that buffers organizations in times of crisis as “stakeholders may ignore negative implications from the crisis or unfounded speculation about causes of the crisis, or be more receptive to the organization’s interpretation of the crisis” (Coombs & Holladay, 2001, p. 324). The converse is true when the relationship history is unfavorable. Hence, a large reserve of goodwill ensures that a crisis will not inadvertently create an “overdraft” in a crisis and damage the organization’s reputation. Moreover, stakeholders will be less likely to attribute organizational responsibility for a crisis if the relationship is good; the opposite is true when the relationship history is unfavorable or neutral (Coombs & Holladay, 2001).

**Background**

Kenichi Ohmae (1991) claimed “it is a twenty-first century fact that any institution that does business and pays taxes within a country is a legitimate corporate citizen of that country. It is a full, dues-paying participant in the economy, with all the rights and all the obligations that entails. Where it's headquartered makes no difference” (p. 130). However, nationalistic sentiments and interests mean that things are not always so clear-cut. To protect its national carrier Qantas, the Australian government has for years prevented Singapore Airlines from flying the Sydney-Los Angeles route. Similarly, the US government blocked a Dubai government-owned corporation from owning ports
in the country and stopped Chinese state-owned oil firm CNOOC in its bid for American energy firm Unocal. In Europe, Pepsi’s proposed takeover of Danone provoked a strong reaction from France (Hyland, 2006).

On January 24, 2006, Thailand’s Prime Minister Thaksin Shinawatra and his family sold their 49.6% controlling stake in Shin Corp, a telecommunications conglomerate founded by Thaksin and his wife, to Singapore’s Temasek Holdings (Temasek and its partners would eventually hold 96.12% of Shin Corp through a complex structure). Temasek made the acquisition together with Siam Commercial Bank and a number of individual Thai investors through a company called Kularb Kaew. At the time of the sale, Temasek already held significant stakes in a number of Thai banks, real estate properties and other investments. Established in 1974, Temasek is an investment arm of the Singapore government that manages a diversified global portfolio of S$103 billion (approximately US$165 billion) – principally in Asia and the OECD economies. Their investments are in telecommunications and media, financial services, property, transportation and logistics, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences. At 73.3 billion baht (about US$1.9 billion), the Shin Corp-Temasek deal was the biggest commercial transaction in Thailand’s corporate history. Ostensibly, Thaksin made the sale to deflect criticisms about conflicts of interest between his business and political activities and to ward off accusations that his policies have benefited his family’s business. On its end, Temasek stated that the deal was purely commercial in nature and devoid of political interests. Although foreigners are technically not allowed to own more than 49 percent of a Thai company, foreign corporations have been able to take majority control through nominees
and proxy Thai companies (Barn, 2006).

Almost as soon as the deal was announced, serious political and regulatory questions surfaced in Thailand. For example, there were allegations of insider trading—an offshore company set up by Thaksin sold 11 percent of Shin Corp to his children for one baht per share (Temasek paid 49 baht per share) three days before the deal to avoid the withholding tax incurred. The situation was complicated by Thaksin’s subsequent 73 billion baht (US$1.8 billion) tax-free profits from the transaction and his earlier promise to protect Thailand from “avaricious” foreign investors when he won a landslide victory in the 2001 national elections. Despite pressure from the public and the media for greater transparency and accountability, Thaksin remained defiant.

Even before the transaction was completed, analysts had already warned Temasek that it could face a nationalist backlash from the famously patriotic Thai public. The sale of Shin Corp to Temasek was especially sensitive as Shin was the holding company for Thailand’s biggest mobile phone company, a national broadcaster (i.e. iTV), and a satellite company. Moreover, iTV was set up as Thailand’s first independent television channel focusing on current affairs. More significantly, Thais saw the Temasek deal as a foreign government’s acquisition of strategic Thai assets (A few years earlier, Norwegian company Telenor’s acquisition of a large Thai mobile phone operator did not attract any controversy as it was viewed as a purely commercial transaction). Thaksin’s political opponents also focused on Singapore businesses’ aggressive investments in Thailand, thus inciting fears of “economic imperialism”. While Thailand has a friendly business culture, it also has a strong anti-foreign business lobby. Despite the 1997 economic crisis,
the resistance of powerful business families in Thailand has frustrated attempts by Thai technocrats to restructure the economy (Barn, 2006).

Even though the legality of the deal was never in doubt – the Thai Central Bank Governor told Reuters in early March that the Shin deal was “irreversible” – thousands of protestors staged demonstrations in Bangkok urging Thaksin to resign. They also staged protests outside the Singapore Embassy urging Temasek to rescind the deal and threatened to boycott products and services offered by Singaporean companies operating in Thailand. In addition, Thai protestors burnt posters of Lee Hsien Loong, Singapore’s Prime Minister, and Ho Ching, Temasek’s Executive Director and CEO, and carried placards that read “Thailand not for sale” and “Singapore get out”. In response, the Singapore embassy handed letters to protestors explaining the Singapore government’s non-interference in the business operations of Temasek and the purely commercial (i.e. non-political) nature of the Shin Corp-Temasek agreement. The protests threatened to damage historically warm relations between the two countries – Singapore is the largest investor in Thailand after the U.S.; it also contributed a significant amount of aid and relief teams when the tsunami hit southern Thailand in 2004 (Lopez, 2006). The Thai consumer boycott also hurt Temasek and Shin in a material way – AIS, Thailand’s largest mobile phone operator and the most important subsidiary of Shin Corp, reported its poorest phone subscription figures in more than two years at the end of March 2006, causing its share price to drop 1.6 percent (“Partial Thai consumer boycott tells on AIS”, 2006, Mar 31). Thaksin ultimately responded to the pressure by dissolving parliament and calling a snap poll – three years ahead of the next election – which would serve as a referendum on the legitimacy of his government.
In response to the public relations crisis, Temasek created a new position – Managing Director of Corporate Affairs – in April 2006. The move appears to reflect recognition by the firm that public relations can play a crucial role in shaping perceptions, particularly with regard to Temasek’s links with the Singapore government.

Analysis

Temasek claimed to have been mindful of the social and political sensitivities surrounding its business operations and to have taken the necessary steps to address stakeholder concerns (Siow, 2006). Still, both Temasek and the Singapore government admitted to being caught off-guard by the furor associated with the Shin Corp deal (Tisdall, 2006). The discrepancy between Temasek’s underestimation of the backlash and the crisis that unfolded in Thailand reveals corporate management’s inability or unwillingness to adopt effective issues management. If issues management is “the strategic use of issues analysis and strategic responses to help organizations make adaptations needed to achieve harmony and foster mutual interests within the communities in which they operate” (Heath, 1997, p. 3), whether “by changing corporate policy, shaping legislation, or influencing public opinion” (Heath & Nelson, 1986, p. 21), then Temasek failed remarkably. Temasek has never had a proactive corporate communication strategy – certainly not one that even resembles the two-way symmetrical public relations model advocated by Grunig and Hunt (1984) or the relational management perspective (see Ledingham, 2003). There was no evidence of the use of “bargaining, negotiating, and strategies of conflict resolution to bring about symbiotic changes in the ideas, attitudes, and behaviors of both the organization and its publics”
(Grunig et al., 1995, p. 169). Indeed, its concept of communication is equated with “no communication”, minimal communication, or at best the “public information” model (Grunig & Hunt, 1984) – a philosophy that betrays corporate management’s lack of belief in the value of transparency. Journalists have often complained about the company’s unresponsiveness to issues and media enquiries. For example, media questions are typically met with a “no comment” response or an opaque answer that is read verbatim from a standard Q&A document (Lee, 2006; “Shed a tear for Temasek. Not”, 2006). The frequent refusal of Ho Ching, Temasek’s Executive Director and CEO, and other company executives to make themselves available for media interviews has further contributed to perceptions of secrecy and a hidden agenda (Burton, 2006). In essence, Temasek’s dismissive attitude towards communication has deprived the company of the opportunity to build strong organization-public relationships which form the foundation of sustainable business. As best communication responses occur before opinions about an issue galvanize among key audiences (Chase, 1984), communication cannot be an afterthought but should instead be a central part of corporate strategy.

Temasek’s creation of the new executive position in corporate affairs and its appointment of a public relations veteran to that position appear to be a step in the right direction. For a start, the corporate affairs/communication function now has a seat at the management table and access to executive decision makers. This is significant as issues managers can only be truly effective when they are integrated into the information acquisition, characterization and decision-making process (Heath, 1990). As organization-stakeholder relationships do not end when issues are resolved, the corporate affairs executive can act as a direct and stable conduit between corporate management
and Temasek’s stakeholders. However, it remains to be seen if the corporate affairs position will be allowed to play an instrumental role in corporate strategy – a look at Temasek’s web site in July 2006 shows that it occupies the second-lowest rung in the hierarchy of company managing directors.

Addressing the communication issue is a start, but it is not enough – corporate identity management is also important. With support from the media, the Thai opposition managed to portray the Shin Corp deal as a threat to Thai sovereignty. The notion of sovereignty is deeply entrenched in Thai social consciousness – it is after all the only country in Southeast Asia never to have been colonized and proud of the fact. Moreover, Thais are encouraged to subscribe to the principle of “self-sufficiency” championed by their revered King Bhumipol Adulyadej in a landmark speech during the 1997 Asian economic crisis. Although interest in the principle had already emerged in the late 1970s in response to the social dislocation brought about by the earlier economic boom, King Bhumipol’s speech gave self-sufficiency a new legitimacy. In essence, self-sufficiency advocates economic self-reliance and a return to a simpler way of life based on Buddhist moderation, community values and agriculture. The “self-sufficiency economy” is thus a “moral economy” as opposed to the “materialistic” economy that is defined by acquisitiveness and disregard for local culture (Phongpaichit & Baker, 2000). While there is probably nothing Temasek can do about Thai self-identity, the company’s management can be proactive about shaping public opinion through better corporate identity management. Even before the Shin Corp deal, Temasek and Temasek-linked companies had already faced resistance in acquiring strategic telecommunication assets such as Optus in Australia, Indosat in Indonesia, Global Crossing in the U.S. and Time.com in
Malaysia (Wong, 2006). The resistance arose in large part because Temasek’s transactions resembled a foreign government acquiring a strategic national asset – Temasek is 100% owned by Singapore’s Ministry of Finance. To complicate matters, Ho Ching is the wife of Lee Hsien Loong, Singapore’s Prime Minister and Finance Minister. For Temasek’s foreign acquisitions to stop being an issue, Singapore’s Ministry of Finance may have to significantly dilute its ownership of the company. In addition, the Singapore Government must show that it “plays by the same rules” and allow majority foreign ownership of Singapore’s own prized strategic assets such as Singapore Airlines and Singapore Telecom. Then and only then will Temasek’s foreign acquisitions be perceived to be “fair”.

Last but not least, there is the important issue of ethics. Thai protestors argue that the Temasek deal was fundamentally “tainted” as it allowed Thaksin’s family to enjoy a tax-free windfall from the sale of a national asset. Moreover, Thaksin’s son was fined six million baht by the Securities and Exchange Commission of Thailand for failing to disclose pertinent information before the transaction took place. As the Singapore government takes considerable pride in its integrity, Thai protestors felt it should apply the same high standards of transparency to the transactions of Singapore government-owned companies such as Temasek (Montlake, 2006). Temasek, for example, should not have claimed that Shin Corp would continue to be majority-owned by Thai interests even after the transaction is completed (Ghosh, 2006) for the claim is only technically correct if the shares owned by Temasek-appointed nominees are not taken into account.

Companies should always elevate ethical principles over legal standards, as doing so would ensure that the organization thinks and acts in the interest of its publics as well as
its own and thus ensure its long-term survival (Bowen & Heath, 2005).

Conclusion

Over time, effective management of organizational-public relationships based on mutually beneficial interests and goals can result in mutual understanding and benefit for both parties (Ledingham, 2003). Moreover, a good relationship history acts as a “reserve of goodwill” that can buffer organizations in times of crisis (Coombs & Holladay, 2001). An organization’s involvement in and support of the community in which it operates can also build goodwill among its key publics (Ledingham & Bruning, 1998). However, companies that are planning to engage in international mergers and acquisitions would do well to learn from Temasek’s experience, which shows that even the good relationship history between two governments is no guarantee against a crisis when external stakeholders perceive that ethics and sovereignty have been compromised.
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