



Enlightened values

*Is shareholder or stakeholder value
the better path?*

“ Customers don't exist to help us make a profit, we exist to deliver what they want. ”

Report

Enlightened values

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Is shareholder or stakeholder value the better path?

by Pierre Danon, Chief Executive Officer, BT Retail

*Running a business is always a balancing act,
and making decisions a matter of judgement.*

*But making the right decisions requires an in
depth understanding of the cause and effect
determinants of commercial success.*

*This paper describes how we have developed that
understanding in BT Retail.*

*Some may interpret it as a framework for business
excellence, others as a business case for corporate
social responsibility and others as a recipe for
improved customer satisfaction.*

We see it as all three.

A handwritten signature in black ink, appearing to read 'Danon', with a large, sweeping flourish extending to the left.

Sustainable Company or Sustainable Society?

It would be quite difficult to find many CEOs today who would stand up in public and support the, now politically incorrect, words of the eminent economist Milton Friedman:

“[The] one and only one social responsibility of business [is] to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

But many may still privately think this.

After all the directors of companies are primarily accountable to their shareholders so doesn't it stand to reason that *a*, if not *the*, primary objective of a business is to maximise profits. In any case a profitable company creates jobs, fuels the local economy and pays taxes – all good for society.

Certainly the CEO of any company failing to make a reasonable return on investment is going to be in for a very rough ride – powerful institutional shareholders will soon see to that.

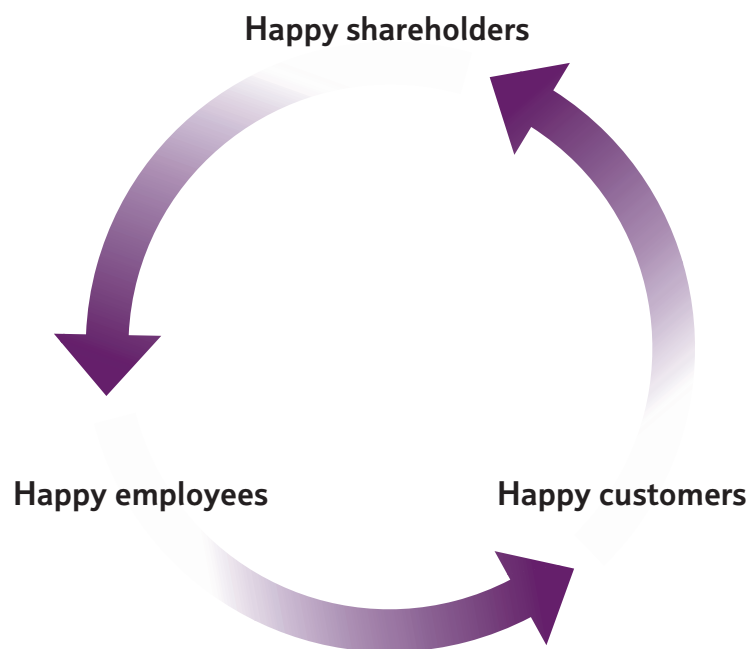
So is the answer to Charles Handy's famous question “What's a company for?” simply to maximise shareholder value?

Some, but not us, may wish that life was that simple. If only one didn't have to worry about employee and customer satisfaction, about partnering suppliers or about being accountable for one's actions to wider society.

In BT we fervently believe that creating stakeholder value is the route to creating shareholder value. That maximising employee and customer satisfaction, partnering with suppliers for mutual gain and being accountable for our actions to wider society is as important as making a profit. For they are, in effect, one and the same; because by addressing stakeholder expectations we create shareholder value – enlightened shareholder value.

Enlightened Shareholder Value

For most companies the three most critical stakeholder groups will be customers, employees and shareholders. Here stakeholder satisfaction is going to be mutually rewarding.



1. Happy employees lead to happy customers

The business case for our annual Communications and Attitude Research for Employees (CARE) survey is built on building improved employee satisfaction.

CARE is an opportunity for BT people to express their views and opinions on a range of issues at local, divisional and company level. It is also a chance for managers (all managers with teams of more than eight people receive individual CARE feedback reports) to monitor the impact of their decisions and review their management style.

We pay close attention to the CARE results in BT Retail and managers at all levels have CARE targets as part of their personal objectives for the year.

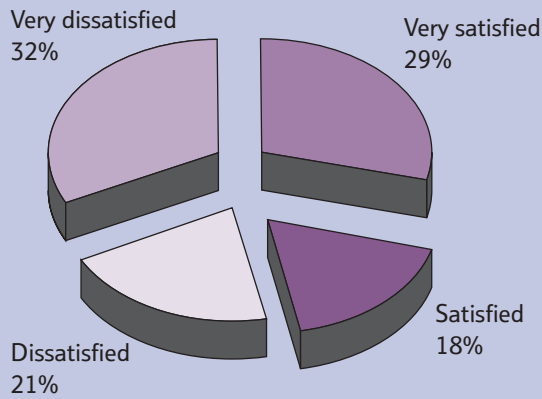


In fact we know that with a de-motivated customer-facing employee it is almost inevitable that their dissatisfaction will be reflected in the customer experience.

Consider the following two charts that relate to two different advisors in one of our call centres.

Poor advisor results

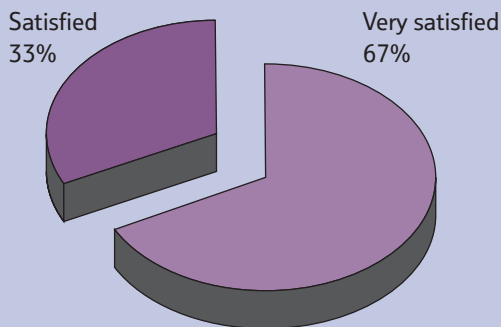
How satisfied were you with the advisor who handled your call?



“Advisor argued with me – very unprofessional. He insisted he was right. I’ve spent 6 months waiting for a second query to be sorted out. I will try and look into leaving BT over these two incidents of rudeness and incompetence.”

Good advisor results

How satisfied were you with the advisor who handled your request?



“I would like to thank the person who dealt with me, I had just moved house and also lost my wife who died and the staff helped me by making things easy to understand. I am 80 years old and was a bit stressed at the time, thanks again.”

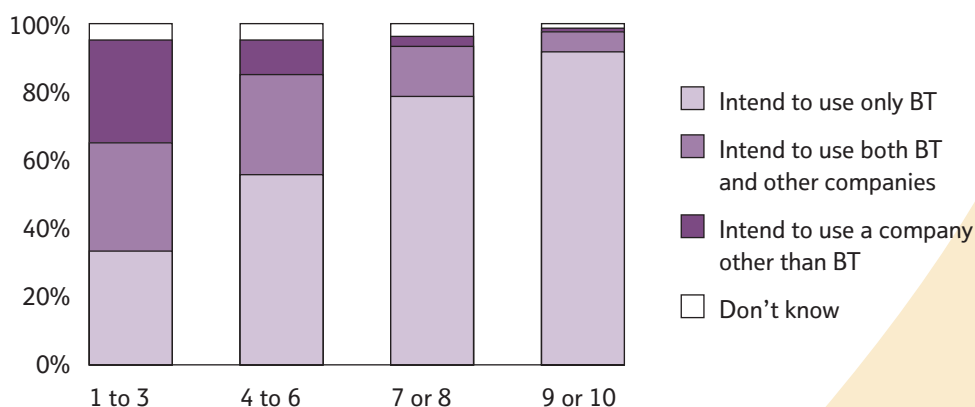
The sample of customers handled by the first adviser marked us less than 50 per cent ‘overall satisfied’ whilst customers handled by the second adviser were 100 per cent satisfied.

2. Happy customers lead to happy shareholders

Customer satisfaction in turn affects loyalty and revenues. We also asked a sample of customers in the same call centre how likely they were to stay with BT, and we found that about 7 per cent of those who are 'very dissatisfied' also said they would definitely leave. Taking this figure, along with some rough assumptions about average bill size, the number of customers an advisor might deal with in a year, net margin etc, **we estimate that a single advisor with poor customer handling skills stands to reduce company profits by £300,000.**

Further evidence of the cause and effect link between improved customer satisfaction and customer loyalty comes from our general consumer survey data.

Relationship between customer satisfaction and customer loyalty



Overall satisfaction score

This potential loss of customer revenue is most significant because we know that it is most likely to come from our eight million most valuable customers who each deliver an average annual EBIT (earnings before interest and taxes) of roughly £70.

3. Happy shareholders lead to happy employees

From employee satisfaction, via customer satisfaction, to business success, it now takes one final connection to complete the virtuous circle of sustainable profit from enlightened shareholder value.

Over a number of years we have offered a range of benefits that promote employee ownership of the company including:

- **sharesave** – an opportunity for employees to take an option to buy shares at a discounted rate, either three or five years in the future
- **profit sharing** – employees are allocated shares on the basis of company performance (in 2000, over 107,000 – 98 per cent of those eligible – received shares)

So, happy shareholders lead to happy employees.

Delivering Customer Satisfaction

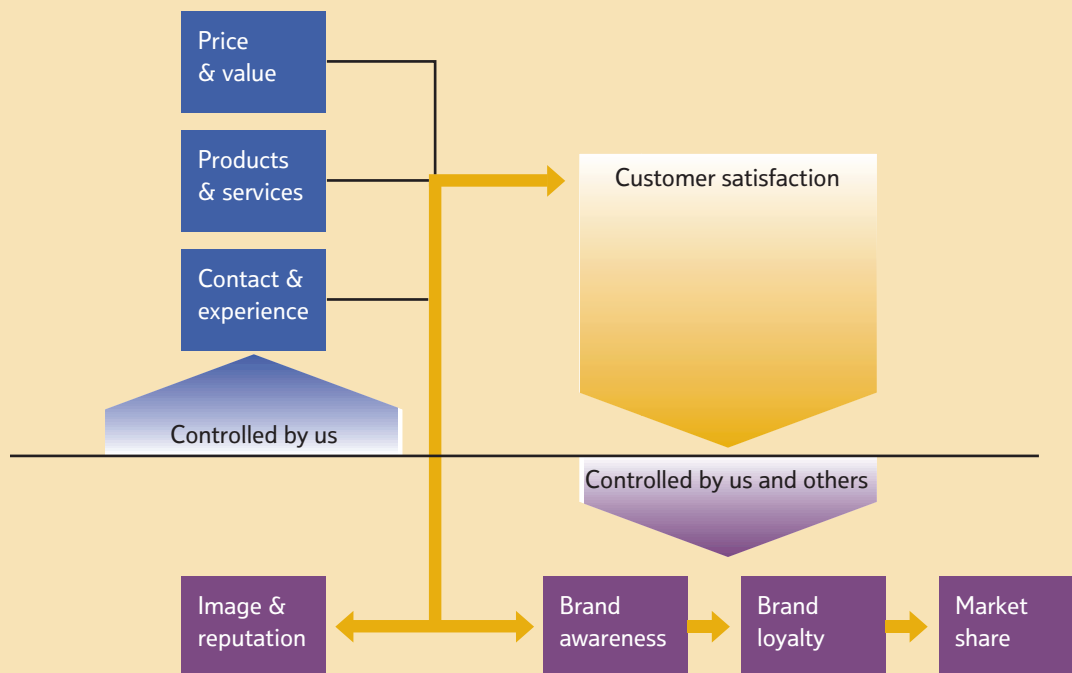
**Customers don't exist to help us make a profit,
we exist to deliver what they want.**

Appreciating that there is a link between stakeholder satisfaction and business success is only the starting point. The real challenge is to understand in depth what actually drives that satisfaction.

In BT Retail we have built customer satisfaction as our key objective to the extent that:

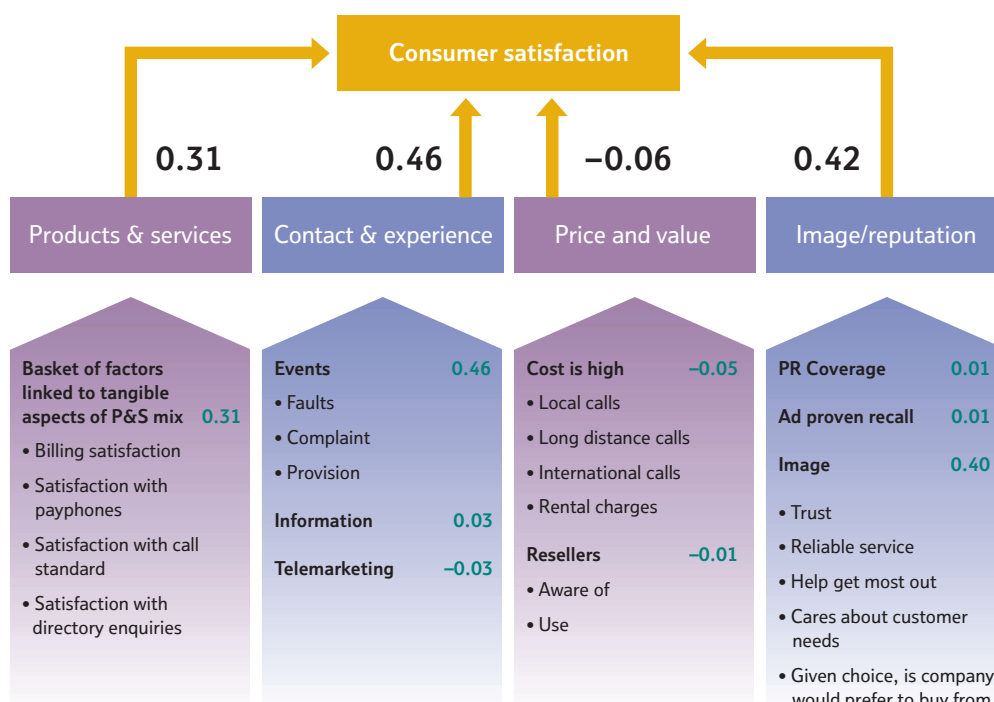
- we model and weight the real drivers of customer satisfaction
- we target our drivers and monitor continuous improvement
- we totally align the 'voice of the customer' with internal measures and targets

In fact we have developed both a qualitative and quantitative understanding of the real drivers of customer satisfaction.



The top half of this diagram holds no real surprises when it shows value for money, quality and performance of our products and services, and the customer experience with BT Retail as important drivers of customer satisfaction.

However, with customer satisfaction as our touchstone, simply appreciating these qualitative relationships is insufficient if we are really going to drive up our customer satisfaction ratings. Which is why we have spent considerable effort disentangling masses of data (survey data, media coverage, reputation rankings, etc.) to really understand the cause and effect linkages in mathematical terms.



Under each of the four main column headings on this diagram is a list of the detailed measures we have data on. For example: customer satisfaction with our billing processes, the number of complaints we receive, the cost of our calls relative to our competitors, the balance between positive and negative media coverage on BT, and survey data on what the UK general public feels about our company.

With this mass of data it has not been easy working out how each one ultimately affects our customer satisfaction figures. But we believe we have now achieved this.

The numbers at the head of each column are the cause and effect modulation factors for each of the four main drivers of customer satisfaction. They are best explained by example.

If BT's overall image and reputation goes up by say 2 per cent, then we would expect to see a (2×0.42) 0.84 per cent increase in our customer satisfaction rating. Or if people perceive that our prices have increased by 10 per cent then we would expect to see a (10×-0.06) 0.6 per cent fall in our customer satisfaction rating. (Note how the pricing modulator is negative so that falling prices drive up customer satisfaction and how it is relatively small compared to the other modulators due to the large price changes (usually reductions) that take place in our industry.)

The numbers in green are the components that combine to form the key modulation factors. In fact, in most cases, we can even go to a third stage of detailed understanding.

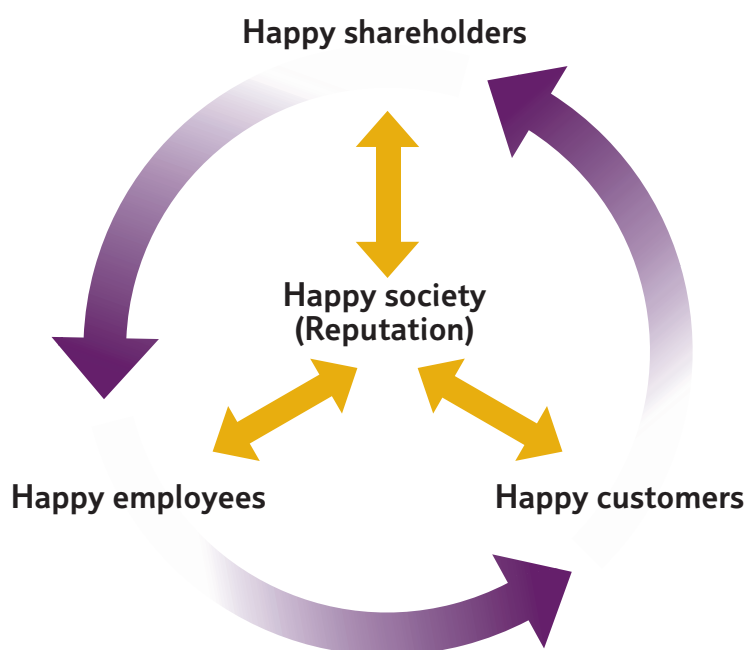
With all this information, not only are we absolutely convinced that by putting customers at the heart of what we do we will build our business success, we now know exactly what we need to do to boost their satisfaction.

The customer satisfaction model is a critical part in understanding, at the fundamental level, how we deliver business success within the enlightened stakeholder approach. **But the big surprise that came out of this work was the criticality of BT's overall image and reputation as a major determinant of customer satisfaction.**



Closing the Virtuous Circle

The importance of the company's reputation within the wider society is central to our support for stakeholder engagement, because our reputation is, in essence, a summary of how our stakeholders perceive us and it thereby feeds, and feeds off, the satisfaction of each stakeholder constituency.



The quality of stakeholder engagement and satisfaction is but one of many complex inter-relationships that determine business success. In other words there is a multiplicity of such virtuous circles we could draw, from all sorts of perspectives. Which is why the decision making process in a large company needs an informed understanding of all these factors.

As all groups of stakeholders rarely reach a consensus, a company must select the appropriate balance point and make, and be seen to make, responsible decisions.

Corporate social responsibility is then about being held to account for those decisions in an open and transparent way.

Corporate Accountability

Over the past three years the UK government has sponsored an independent review of UK company law. One of the most contentious points during this review concerned the legal accountability of company directors.

Some of the review participants argued that most companies do not yet accept the enlightened shareholder value approach and that company directors should therefore be legally accountable to all the company's stakeholders.

After much deliberation the review panel decided this was unlikely to work and therefore recommended changes to company law that maintains the focused accountability to shareholders but which would also encourage companies to develop the enlightened shareholder approach.

Specifically the review proposes that directors need to recognise the importance of stakeholder relationships and in particular that, as part of the annual report and account, a new operational and financial review would incorporate 'material stakeholder concerns'. The method of determining what is, and, perhaps more importantly, what is not, material is left to the directors. However, the external auditors would inspect the process and reach a view on its validity.

This is but one of a number of pressures on companies to become more accountable to their stakeholders. For example in the European Commission's proposal for a EU strategy for sustainable development it states "All publicly-quoted companies with at least 500 staff are invited to publish a 'triple bottom line' in their annual report to shareholders that measures their performance against economic, environmental and social criteria".

In BT we not only cover such matters in our annual report to shareholders, but we also produce a stand alone, integrated, on line, real time, in-depth triple bottom line report. It can be found at www.groupbt.com/betterworld

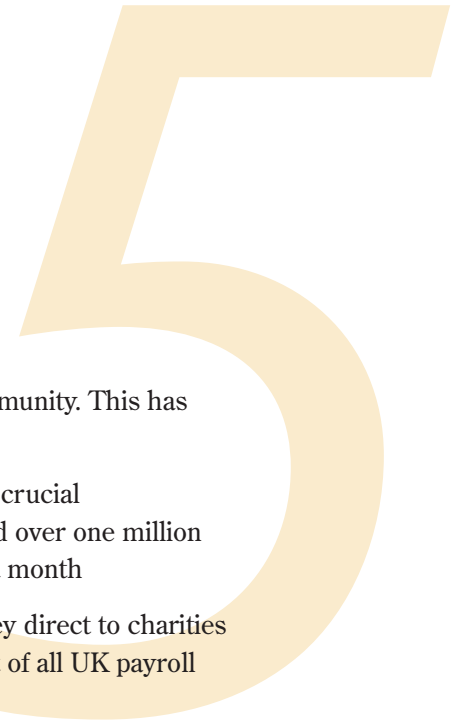
Critical to this report is the level of independent input – we had an independent advisory panel overseeing the whole process, independent auditors verifying the accuracy of the data and independent authors analysing BT's performance on controversial topics such as mobiles and health and the digital divide.

It highlights the progress we have made and sets targets for the future.

For example, in environmental management, we have achieved annual savings of nearly one million tonnes of carbon dioxide, the biggest contributor to climate change. And we have been actively managing the environmental benefits that can arise through the use of our products and services: our internal use of audio conferencing saves 150 million business miles of travel a year. Reduced commuting, as a result of BT's teleworking programme, is saving 424,000 car miles and 190,000 rail miles per week.

On employee issues, we have put in place a comprehensive equality and diversity strategy, covering race, gender, disability, and work-life balance. In 2001, Opportunity Now and Race for Opportunity, both part of Business in the Community, awarded us Gold Standards for our approach to ethnic minority and gender issues within the company.





We invest 0.5 per cent of our pre-tax profits back into the community. This has grown from £10 million in 1987 to £16 million in 2001 and:

- supports our schools programme which aims at developing crucial communication skills for young people and has now reached over one million pupils. Its web site regularly receives over 500,000 visitors a month
- contributes to our payroll giving system. This donates money direct to charities chosen by our employees and generates almost 10 per cent of all UK payroll giving
- provides thousands of volunteers working in the community
- helps charities raise funds, for example by hosting nation-wide telephone appeals
- produced communication skills training material to over two million people.

On supply chain issues, we recently launched Sourcing with Human Dignity, a programme that actively promotes human rights with our suppliers. Although the promotion of these standards is becoming more common practice in the retail sector, this is a relatively new development for the communications industry.

For customers with special needs, one of our major commitments is Typetalk, a national text relay service, funded by BT and run by the Royal National Institute for Deaf People. This service enables textphone users who may be deaf, deaf blind, hard of hearing or speech impaired to make and receive calls to or from hearing people.

And finally, on corporate accountability, we have been ranked third in the world for sustainability reporting in a recent study published by the United Nations, and the Association of Chartered Certified Accountants (ACCA) have awarded BT the award for *Continued Excellence in Environmental Reporting*.

All these things are important and transparency is important. But it begs the question: are our stakeholders actually interested in these formal accountability processes?

'Professional' Stakeholders

Calls for corporate accountability and transparency mostly come from what we might call the 'professional' stakeholders – civil society organisations, governments and, increasingly, financial institutions.

But do they come from our 'real' stakeholders – our actual employees, the average customer, shareholder or supplier?

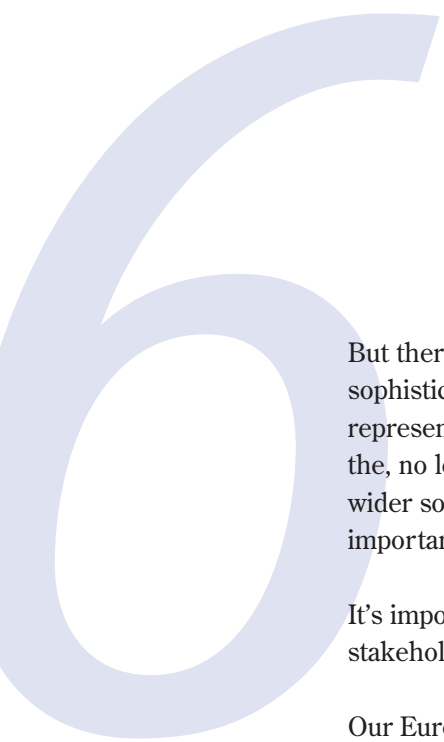
Certainly the 'professional' stakeholders are real enough – anyone who has been the focus of an NGO campaign will testify to that. And their enthusiasm to change company behaviour manifests itself in a number of ways. Not least through the plethora of codes of conduct, product labels, voluntary initiatives, management standards, charters, and accounting and reporting protocols that companies are encouraged to follow and sign up to.

This sea of charters and standards is confusing, overlapping and usually uncoordinated. Ideally we would see a coalescence of this multiplicity of approaches.

But don't hold your breath – having developed his theory of relativity at a relatively young age Einstein spent the rest of his years unsuccessfully trying to find a unified theory that joined the diverse strands of physics. It would probably be just as difficult to do the same for corporate social responsibility!

That's not to downplay the role of the 'professional' stakeholder. Far from it as there is much valuable guidance to be gleaned from the standards, as well as useful opportunities to learn from others through engagement in corporate social responsibility networks.

In fact companies ignore their 'professional' stakeholders at their peril. They are often powerful, with friends in high places. In the recent FT 'most respected companies' CEO survey "increased pressure from stakeholder groups" was cited as the 2nd biggest business challenge (after recruitment of skilled staff).



But there is a real danger that a new clique of specialists, talking their own sophisticated language, is being created. A clique that, whilst often purporting to represent the views of 'real' stakeholders are sometimes more interested in driving the, no less important goal, of institutional ethics, governance and accountability to wider society, than representing what 'real' stakeholders consider to be most important.

It's important though that we talk this language and engage with our 'professional' stakeholders. In BT we achieve this in a number of ways.

Our European Stakeholder Panel advises us on our corporate social responsibility strategy and has international representatives from businesses to campaign groups, from politicians to academics. This is complemented by on-going relationships with influential non-governmental organisations, on issues ranging from climate change to human rights, economic development to the preservation of national parks.

We also hold debates on specific issues such as globalisation, the digital divide, diversity in the work place, and international business ethics. These debates have all been initiated by BT, with discussion based on our series of Occasional Papers. And through the Better World web site we are increasingly experimenting with on-line engagement as a way of broadening the reach of our consultation processes.

Indeed, in October 2001 we will hold a live on-line debate to discuss BT's approach to one of the most important social issues facing the communications industry today, digital inclusion. This debate will serve to illustrate the potential of communications technology in making new connections between 'professional' stakeholders and opening up new opportunities for collaboration.

Looking over all of us in the telecommunications industry is the most influential stakeholder of the lot – Ofcom the industry regulator. Here we aim to achieve a constructive relationship and comply with Ofcom requirements, whilst maintaining a competitive edge for the company. We welcome competition and are pleased that we have been able to deliver year on year price reductions to our customers – in fact the UK has some of the lowest Internet prices in the world. In this relationship the enlightened shareholder approach is just as relevant.

Reward for our effort in these areas comes in a number of ways such as our listing as the number one telecommunications company in the world-wide the 2001 Dow Jones Sustainability Index and as Business in the Community Company of the Year in 2000.

'Real' Stakeholders

But what do 'real' stakeholders really, really want?

We certainly make every attempt to engage with them. For example:

- The BT European Consultative Council provides a forum for the exchange of information and views between management and employee representatives. It covers all BT's operations in Europe, focusing principally on the performance and overall strategy of the BT group, on jobs and employment plans, and on the commercial and regulatory factors impacting its operations. Other issues such as training, health, safety and the environment may also be included
- Our consumer liaison panels consist of 12-15 consumers with a broad range of experience and usage of communications technology who are recruited from their local communities. Feedback from panel members provides valuable insight into consumer thinking and informs the policy making process within BT
- We have face to face meetings with our top 200 business clients. Host various Internet sites for business customers to exchange ideas and information. And in the banking sector we have invited our main customers to form a top level advisory forum.

At a broader societal level the UK 2000 MORI Ethical Consumer Study found the key factors affecting UK consumer purchases are predictably quality of service; value for money and customer service (98 per cent), but employee treatment, environmental impact and social policy came next at around an 80 per cent importance rating. (Note the similarity with our four pillars of customer satisfaction.)

So the 'real' stakeholders still want to be re-assured that companies act in the right way. In fact the MORI 2000 poll found that 41 per cent of all UK adults think this is very important (up 50 per cent in two years).

But, with a few exceptions such as some large commercial customers, they are not, themselves, that interested in the detailed analysis and formal accountability standards that go with it. In fact they usually rely on the 'professional' stakeholders to do that for them and to call the companies to account when they err.

So this brings us full circle.

A modern company plays a delicate balancing act. Not only in trying to keep all its individual stakeholders happy by offering them a rewarding transactional experience, but also by making a contribution to the wider society.

The BT Retail Vision

Although our tactical approach to achieving enlightened shareholder value is ‘we believe’ well thought out, it does not complete the entire picture. For it leaves hanging the Charles Handy question – “What’s the company for?”.

Although one could answer “to maximise enlightened shareholder value”, this is un-inspiring and non-strategic.

Which is why BT Retail has a vision.

A vision is our creation of the future. A vision deals with where we want our company to go, what we want to achieve, what our plans should be and where we want to make our contribution.

An audacious vision can galvanise a company and infuse it with purpose and determination.

It means we should all know what we are doing and why we are doing it all of the time.

A great vision inspires people to become involved. It is something that people want to play a part in achieving. It should have an effect upon every single part of the company.

It must also be outward, not inward, looking. It must be meaningful and respected by our stakeholders. It must be bigger than the business and put meaning into commerce.

It must explain ‘what we are for’ including how we make a high level contribution to society.

In BT Retail we wanted a vision that bridged what we have achieved over the years and what we believe our company can be in the future. It is to be our roots and our aspirations in one.

In understanding our vision it's important to recognise that BT Retail is the main public manifestation of the BT brand in the UK. Through our activities we touch communities of all shapes and sizes: families, individuals, sellers, buyers, workers, businesses, government at all levels and social organisations, clubs and campaign groups.

All these communities have needs to be met and goals to be reached. Effective communications will enable them all to reach their full potential.

But life is becoming more complex, technologies are converging and change is taking place faster than ever.

BT Retail's role is to make that complexity transparent, to make things easier; to enable every individual, organisation and business to realise their potential through communications.

Our vision **'Connecting your world. Completely.'** encapsulates that role and explains what we are for.

Our vision will be complete when every BT Retail customer can access the whole world instinctively and intuitively, regardless of the medium of communication.

This vision is inclusive, not exclusive.

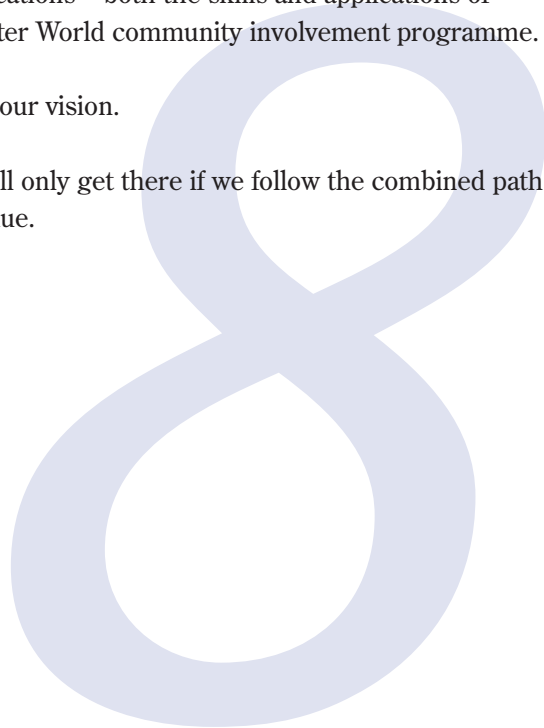
We want people to have the freedom of choice of supplier and medium.

We also want to succeed in a way that really contributes to the society and communities within which we operate. For example we are already:

- delivering the UK Online project which will make all communication and transactions with Government available on-line by 2005. This will allow the UK public to do things like apply for passports and register with doctors from their computer
- providing communications solutions to schools, colleges and universities that widens access, makes administration quicker and easier and enables online content delivery
- introducing NHSnet, a managed IP network for the UK National Health Service. This service offers the use of email, web browsing and intranet services to NHS employees and in the future will introduce electronic health records
- delivering BT Airwave – a secure radio system for the emergency services around the UK. This ‘state of the art’ digital system provides the police forces with seamless communication across a national network and helps them to improve response times and public safety with probably the most advanced system in the world
- championing better communications – both the skills and applications of technology – through our Better World community involvement programme.

We are on our way to achieving our vision.

But there is no doubt that we will only get there if we follow the combined path of stakeholder and shareholder value.



Want to know more?

This publication is the fifth in a series of “*Occasional Papers*” from BT which address some of the complex inter-relationships between companies and the societies in which they operate. The other papers are available under publications at:

www.groupbt.com/betterworld

Opportunities for Change. This is BT’s response to the United Kingdom Government’s consultation on its strategy towards sustainable development.

Changing Values. This considers the role of multi-national businesses in making sustainable development a reality.

Variety and Values. This examines the complex relationships between globalisation and bio- and cultural- diversity.

Adding Values. An insight into why and how to account for a company’s economic performance and effects in relation to sustainable development.

BT also publishes various reports on sustainable development and its social and environmental performance. All these reports are available on the same Internet site.

Printed copies of the publications are also available from:

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e-mail: steve.j.kelly@bt.com

Your Views

Dialogue is a key theme of this paper. We argue that flourishing stakeholder relationships are critical to the creation of shareholder value, and that these in turn are dependent on effective communication and consultation.

So we are keen that the publication of this paper is not a one way communication between BT and the reader. We would like to offer you the opportunity to provide feedback on the case that we make and contribute to our thinking on this topic.

If you have any comments on this paper you can email us at yourviews@bt.com and we will do our best to respond promptly.

Alternatively, you can visit our Your Views site and register for one of the online discussions that we are holding, or look out for our occasional live online debates.

This discussion forum has been opened as part of our social and environmental reporting activities and is located at www.groupbt.com/society/yourviews

If you would like to write to us, you can send your comments to:

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Pierre Danon

Chief Executive Officer, BT Retail

Pierre Danon joined BT in October 2000 as chief executive officer of BT Retail, a new business unit designed to develop and maintain relationships with 21 million customers in the consumer, public and private sectors. He reports to BT Chief Executive, Sir Peter Bonfield, and is a member of the group executive committee.

The BT Retail strategy aims simultaneously to improve customer satisfaction and quality, while reducing costs by eliminating failure and transforming the business by encouraging the use of internet technologies.

Pierre started his career with the French arm of Rank Xerox as a financial analyst in 1981. Ten years later, following several finance and marketing assignments, he was appointed general manager of Rank Xerox, Belgium.

He later became general manager of the company in Holland before becoming general manager of the Central Entity of Rank Xerox with responsibility for Benelux, Switzerland and Austria.

Pierre then moved to the USA to become senior vice president of Xerox Production Systems. He was responsible for the global development, manufacture and delivery of production publishing systems, generating some 3 billion US dollars in annual revenues. He formed and was president of the New York-based Xerox Channels Group. His last post was president of the European division of the Xerox Corporation.

A former governor of the European Foundation for Quality Management (EFQM), Pierre holds a degree in civil engineering from the École Nationale des Ponts et Chaussées, a masters in law from the Faculté de Droit Paris V Assas, and an MBA from the Institute Supérieur des Affaires.

Pierre, aged 45, is married and has two sons.



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