

Case 11: UK

BT Group: Telecommunications giant

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At BT, there is real passion to apply communications to help create a better, more sustainable world.

BT Chairman Sir Michael Rake, 2007¹⁴⁷

British Telecommunications Group Limited (BT) is one of the largest telecommunications and IT service providers in the world. It is the world's oldest communications company, being directly descended from the Electric Telegraph Company that was founded in 1846. In 1984, after privatisation by the Thatcher government, BT became a publicly listed company. Its shares have been traded on the London Stock Exchange ever since.

Operating in over 173 countries, BT Group PLC is the holding company for four separately managed businesses. They are BT Retail, BT Wholesale, BT Global Services and Openreach. BT Group's R&D, IT and network operations arms support all four businesses.

Each business has a core market. BT Retail provides telephones, mobiles, internet access and web-based services to residential and business customers. This division has about 18,000 staff members and 20 million customers, including about 1 million businesses. BT Wholesale manages the UK's core communications network, providing network services and solutions to UK communications providers, mobile operators and internet service providers. It designs, plans, installs and maintains the physical communications infrastructure. BT Global Services, with around 37,000 people, supports large organisations operating in the modern rapidly converging digital networked economy. Over 60 per cent of Fortune Global 500 companies and over 65 per cent of FTSE 100 companies were BT customers in 2008. Finally, the Openreach business looks after access to the network linking homes and businesses to the networks of the UK's communications providers. Its aim is to give all service providers transparent and equal access to the nationwide BT network.

Strategy

The company's strategy has been to maintain its traditional businesses while aggressively growing new products and services. According to the 2008 annual report, this was to be done via long-term relationships with customers, putting customers at the heart of the business and increasing the company's focus on providing global, real-time and open platforms. In the 2010 annual report, senior management also referred to increasing efficiency and reducing costs.

Central to BT's strategy is creating long-term, mutually rewarding relationships with its customers, something that the company believes will deliver profitable revenue streams. In 2010, BT improved its internal scores for

measuring customer service by 10.5 per cent over the previous year, compared with a 9 per cent improvement on its 2008 score and 17 per cent on 2009.¹⁴⁸ These cumulative measures indicate that progress is being made.

In 2008, the company grew new wave revenue by 9 per cent. Long-term relationships with customers were evident in the fact that about 80 per cent of the major contracts managed by BT Global Services were for five or more years. Furthermore, 80 per cent of new products were already using common capabilities, and the rollout of the next generation of broadband services began in April 2008.

The company has demonstrated that it is prepared to make substantial long-term investments. For example, BT's 21st Century Network project is the largest and most radical transformational infrastructure in the history of world telecoms. The company is investing £10 billion in the project, which will see the entire UK telecommunications infrastructure overhauled and upgraded.¹⁴⁹

BT has a strong reputation and a widely recognised brand, which it seeks to develop, protect and manage in various ways. For example, recent annual reports stress the importance of managing social, ethical and environmental issues in a way that grows shareholder value, builds the brand and helps BT and its customers become more sustainable. Successes such as achieving top ranking in the telecommunications sector nine years running on the Dow Jones Sustainability Index further enhance the company's reputation. BT was displaced from the top position in 2010 by Telefonica but has maintained its top level gold status. The company also reaffirmed its Platinum Banding for companies scoring over 95 per cent on Business in the Community's Corporate Responsibility Index.

Financially, the company is more challenged. BT was profitable for some years after privatisation. However, by 2001 it had accumulated a debt of £30 billion, largely due to the costs associated with third generation mobile licences and international joint ventures. In 2001, the company changed its name to the BT Group, having sold off its O₂ mobile phone business and Yell directory business, undertaken Europe's largest ever rights issue (raising £5.9 billion), disposed of non-core businesses and assets and separated from joint venture partner, AT&T. Today's BT emerged from this radical restructuring and has since acquired various businesses worldwide.

BT returned to profitability, paying shareholders a 15.8 per cent dividend in 2008. Between 2008 and 2010, turnover fluctuated around £21,000 million after some difficult years post the global financial crisis.

People at BT

In 2010, BT employed around 98,000 people worldwide of whom nearly 80,000 are employed in the UK.¹⁵⁰ BT employees are encouraged to achieve their goals and targets by using their skills and initiative. The company recruits at all levels of experience, from school leavers to established professionals with sought-after skills. Employee skills cover many areas ranging from telephone

sales and support to service engineering, business management and technical specialisations.

The company is well recognised in the UK for its strong focus on people. BT is committed to the company-wide long-term development of all its employees.¹⁵¹ This starts with the recruitment of 16- to 18-year-old school dropouts to its modern apprentice and graduate schemes and enables all employees to acquire new capabilities.

BT has invested £44 million in training and developing its network engineers, and by the end of 2008 they claimed to have trained up to 18,000 engineers in specialist techniques that support the company's code of practice. Developing people is also strong in the non-engineering side of the company, where it is aimed at helping people acquire job-related skills and take advantage of future career opportunities. Employees have their own career development action plan when they join the company and access to coaching, networking, mentoring, knowledge-sharing and 'buddy' programs to help and guide them.

In return, employees are committed to the company. The company-wide program known as Our Place to Work incorporates an employee engagement index covering ten themes. The results from the annual survey are turned into action plans that are often used to make decisions. The 2008 survey attracted a 72 per cent response rate (over 74,000 responses), generating around 5000 feedback reports for managers and their teams across the business and helping to encourage teamwork.¹⁵² On a five-point scale, employee engagement was 3.58 in 2010, remaining steady throughout some challenging economic conditions.¹⁵³

Since privatisation, BT has not experienced any major industrial action although it came close to having its first strike in 2010 that was averted through a pay raise. Labour relations tend to be very cooperative, and unlike its competitors such as Cable and Wireless, BT recognises trade unions.¹⁵⁴ The company holds regular meetings with representatives to ensure that employee views are considered in key areas, for example, in the introduction of a new pay and reward framework in 2007.¹⁵⁵ In making appointments to the trustee board for the BT Pension Scheme in the same year, five of nine appointments were made with trade union agreement, including the appointment of the chairman of the trustees.¹⁵⁶

Employees are provided with a secure, customer-focused environment within which to develop their skills without the fears of forced redundancy common to the telecommunications industry. In its history, BT has never made any permanent staff redundant, relying on voluntary redundancies when reducing staffing becomes necessary. This is quite remarkable given the challenges of dealing with excess people since the company was privatised and the subsequent and inevitable increase in competition in the turbulent, dynamic telecommunications industry. The company suffered in the aftermath of the dot-com crash in 2001, yet there were no forced redundancies. In 2002, when BT and AT&T decided to abandon their global joint venture, Concert, and cut

their losses, all BT employees who had voluntarily transferred to the venture (effectively resigning from BT) were reinstated at BT. There was no adverse effect on these employees' service and pension benefits. This contrasts with AT&T, where many employees were made redundant when the venture broke up. When BT reduced staffing levels after the global financial crisis in 2009, about 5000 people were retrained and given new roles in the company, while others were seconded to another organisation.¹⁵⁷

Succession planning is apparent at all levels. A recent example is the succession of Ian Livingston as CEO in April 2008. Livingston joined BT as the group finance director in 2002. He became BT's youngest ever CEO at 43 years old and was the board's unanimous choice as successor to Ben Verwaayen.¹⁵⁸ His appointment was heralded as a 'succession plan well received in the City'.¹⁵⁹ It is noteworthy that BT has only had three CEOs preceding Livingston in the 24 years since privatisation. In his time as BT Group CEO, Ben Verwaayen acted in the mould of a speaker for the executive team rather than as a self-centred, heroic CEO. How Livingston will operate remains to be seen, but he was a protégé of Verwaayen with whom he worked closely. When Verwaayen arrived at BT, the company was deeply troubled with huge debts and an uncertain future. Following the financial crash in 2008, Livingston faced similarly challenging times.

Share options form a large percentage of board members' annual remuneration and supplement the salaries of senior management. The focus is on long-term incentives, and share options are subject to a three-year performance period. BT promotes share ownership throughout the organisation, and all permanent employees can take advantage of the company's two share option programs.

Organisation

In the fast-moving telecommunications industry, it is often said that the only thing that is constant is change, and this has certainly been true for BT. However, BT has evolved in an incremental and evolutionary way. Verwaayen's impact as leader of the top team has been significant, and on news of his departure, one London-based journalist commented that '*BT is certainly not the debt-laden, old-fashioned fixed-line phone company that he took charge of in February 2002*'.¹⁶⁰

Verwaayen and his top team devised a new, clear vision for BT. This vision is captured in corporate values that are articulated on every employee's identity card. The values were promoted in every office and technical centre worldwide, including the value of teamwork. In the 2007 employee survey, 78 per cent of respondents agreed with the statement '*the actions of the people in my team reflect the organisation's values*'.¹⁶¹ One of BT's core values is '*we work as one team*'. The industry in which BT operates is heavily dependent on teamwork and the company aims to enable all BT people to deliver great customer service through teamwork.¹⁶²

The focus on customer service has been reinforced since Livingston became CEO. Five values now guide how to get things done in BT, aimed especially at

providing a consistent customer experience:¹⁶³

- trustworthy: we do what we say we will
- helpful: we work as one team
- inspiring: we create new possibilities
- straightforward: we make things clear
- heart: we believe in what we do.

BT was one of the first FTSE 100 companies in the UK to have a publicly available Ethics Performance Measure (EPM) . In 2002, one of its largest global competitors, WorldCom, collapsed. WorldCom executives were found guilty of falsifying billions of dollars in what amounted to one of the largest bankruptcies in US corporate history. BT takes a firm stand against unethical behaviour, having dismissed 120 people for unethical conduct in 2007 alone.¹⁶⁴ BT's written statement of business practice is available in several languages to all employees, agents and contractors. The company recognises the negative effect of unethical practices on its supply chain. It assesses the risk of unethical and corrupt practices before replying to tenders and investing in new countries and includes human rights questions in its due diligence process for acquisitions. Suppliers are also required to pursue ethical practices.

The company has been ISO 14001 certified for environmental management since 1999 in the UK and is extending this accreditation throughout the business worldwide. The international quality accreditation ISO 9001 has operated in the UK and much of the rest of the BT world since 1994.

Priorities for BT's CSR activities are climate change, social inclusion and sustainable economic growth. CSR has board level support and one of BT's goals is to invest a minimum of 1 per cent of its underlying pre-tax profits back into society. In the 2010 financial year, this translated to £26.4 million in time, cash and in-kind contributions. Independent quality evaluations scored BT's efforts in its social investment program at 95 per cent in 2010, compared with 91 per cent in 2009.¹⁶⁵ Improvements in program management and better alignment with the company's corporate responsibility goals contributed to the enhanced scores.

BT invests in international projects for disadvantaged children in Brazil, China and South Africa. BT aims to help even more people get online in the UK via specific digital inclusion activities. In 2008, the target was set to reduce the number of digitally excluded people in the UK by 10 per cent in three years. BT's *Age and Disability Action* team works to raise awareness within the company of the importance of inclusive design in its services.¹⁶⁶

The company is proud of its achievements in its volunteering program, introduced in 2009. Through the program, each employee can volunteer up to three days of work time at a charity of their own choosing. Within its first year, employees contributed more than 28,000 days to various social enterprises, such as schools, youth groups, organisations for elderly or disadvantaged people and environmental programs.¹⁶⁷

The company's publicly available environmental policy recognises that its day-to-day operations affect the environment in a number of ways.¹⁶⁸ BT sets ambitious targets. For example, in April 2007, the company set a goal to reduce its carbon dioxide emissions to 80 per cent below 1996 levels by 2020.¹⁶⁹ The company was well on the way in 2010, having reduced its global carbon intensity by 54 per cent compared with 1996 and having engaged more than 7000 employees in carbon reduction activities.¹⁷⁰ The company empowers many of its employees to use communications technology to work from home. This initiative saves 12 million litres of fuel annually, resulting in 54,000 tonnes less CO₂. A £250 million project will see wind turbines installed on or adjacent to BT-owned land assets. In January 2007, BT extended its green energy contracts until 2010, saving carbon equivalent to the electricity consumption of over 300,000 households.

Former CEO Ben Verwaayen chaired the Confederation of British Industry's (CBI) climate change task force. In November 2007, he made a plea to members:

*We have to involve our employees and must report transparently our own carbon footprints. This is not just a challenge, it is also the chance to become leaders in a new low carbon economy.*¹⁷¹

BT has been recognised as a world leader in business response to climate change, winning in 2007 the Business in the Community's prestigious Company of the Year Award for its positive impact on society.¹⁷²

BT employees are regularly consulted, and the intranet site has a section dedicated to staff recommendations. Feedback is presented monthly to HR and operational managers. The CEOs of each of the business divisions hold regular online chats for all employees to air their opinions. General managers throughout the company hold quarterly reviews in which employees provide feedback to management about improvements.

Although the transition from state-owned monopoly to private enterprise was challenging, BT has undergone a major shift in culture since then. It now has a relentless focus on customer satisfaction. Once purely technology-led, the company strives to become service-led, with the customer at the heart of everything BT does.

Knowledge sharing is increasingly important at BT. Knowledge workers are highly educated and creative, which means that they seek creativity and autonomy and require high discretion in their work environment.¹⁷³ BT encourages the creation and management of knowledge in the form of company social events, collaborative online spaces and chat events, wikis and blogs and sharing best practice across divisions. BT maintains the largest intranet in Europe, with over seven million pages and nearly 200,000 users.¹⁷⁴ The intranet aims to make people more efficient, effective and empowered.

BT augments its internal knowledge base by participation in industry bodies and collaborating with academics at universities. Does this pay off? BT's head

of university research says that knowledge sharing is reflected in the innovation pipeline, time to market and time needed to fix customer problems.¹⁷⁵ All of these are clearly key business factors. The company also claims that working with business schools enables it to recruit and develop 'T shaped people'. These are people who are deep problem solvers in their own area of expertise, but who can also get on with and understand specialists from many other disciplines.

In 2010, BT invested £1177 million in research and development (R&D).¹⁷⁶ The Adastral Research and Development Park is one of the jewels in BT's crown and is its most important UK facility. Being the largest telecommunications research park in the world, Adastral is home to more than 4000 highly skilled employees and researchers. It leads the company's strategy in R&D and contributes significantly to BT's ability to innovate.

BT shares its innovations in an 'open innovation' process. Instead of keeping its innovations to itself, the company provides public access to them. The expectation is that something even greater will emerge as outside licensees turn innovations into products or develop them further. In addition, licensing provides a revenue stream. Open innovation also assists small businesses that may not have the means to engage in research and development. In these and other ways, the company ensures that its innovative solutions benefit both society and its own long-term development.

Challenges

BT faces considerable challenges over the coming years, in addition to those resulting from tumultuous global financial markets and the following austerity measures in the UK. Its share price has plummeted to its lowest level since privatisation, fuelled by a profit warning and need for top-up payments to the pension scheme. Revenues dropped 2 per cent in 2010. Furthermore, the growth engine for many years, the UK broadband market, is rapidly approaching maturity and the global financial crisis is likely to see consumers reduce their spending on broadband and related services. BT also has challenges in its Global Services division, which failed to live up to profit expectations, prompting fears from investors that the firm may not be able to meet future dividend expectations. The Global Services division was restructured and a new senior management team appointed at the end of 2009. BT faces considerable competition, particularly in the fixed-net business. The company is facing another challenge on top of opening its traditional business to competition. This challenge comes from a requirement of the British government for BT to serve customers throughout the UK, even in areas where it is not economic to do so. This is not required of other communications providers and this distortion of competition poses additional challenges for BT.

Questions to consider

1. Apply the Sustainable Leadership Pyramid to BT as described in the case study. How many of the sustainable honeybee practices can you identify?
2. Do any of the practices interact and influence each other? If so how?
3. What does BT do to encourage each of the performance outcomes identified in the Sustainable Leadership Pyramid?
4. Which sustainable practices could BT improve upon, judging by the case?
5. How well do you think BT will be able to meet its challenges?