2B or Not 2B – That *Is* the Question: The Dynamics of Reputation Management

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Introduction. Times change – technologies, people, places, policies, reputations, and even the institutions themselves – including corporations.

To paraphrase an early 19th Century British poet, George Byron,

> *We are not now*
> *That which we have been.*

That expresses a view of how the world works that I endorse. Yet, I would wager that most of us think that institutional reputations, like personal reputations, are pretty stable over time. In fact, **the idea of a stable institutional reputation is one of the many myths that distort the way we think about world-class companies.**

While some say individual reputations seem to be relatively stable over time (I'm not sure that's true), **it is certainly *not* true of institutions**. If we look

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at the top global brands, for example, the top four rankings have not changed over the past five years[2] – that includes:

1. Coca-Cola,
2. Microsoft,
3. IBM, and
4. GE

These have all been ranked #1 - 4 in order during that five-year period.

However, ranking #5 has shifted – with Nokia ranked #5 in 2001 but replaced by Intel in 2002 through 2005.

The point is, you don't have to be thinking of Enron or WorldCom or even AT&T to see how rapidly things can change. Consider the following **sharp declines in brand rank** between 2001 and 2005:

- Ford Motor Company – from #8 to #22;
- Pizza Hut – from #47 to #63;
- Shell – from #77 to #90.

Or, the following **sharp improvements in brand rank** during the same five-year period:

- Pepsi – rising from #44 to #23;
- L'Oreal – from unranked to #52;
- e-Bay – from unranked to #55.

As measured by *Business Week*, **brand value is always changing**, and sometimes it can change very fast.

The same thing occurs with **global corporate rankings**, which also help to shape corporate reputations.

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[2] *Business Week* / Interbrand (2005): "Global Brand Scoreboard – The 100 Top Brands" found at: http://www.businessweek.com/pdfs/2005/0531_globalbrand.pdf Criteria used to rank the 100 Top Brands:

- Brand must have a value greater that $1mil US dollars
- Derive at least one-third of its earnings outside its home country
- Must have publicly available marketing and financial data

It did not go unnoticed by my colleagues that **Telstra is ranked #195 in recent global rankings by Forbes**. Sometimes you walk a little taller knowing you are among the top 200 in Forbes Global 2000.

Residence in the Global 200 category also helps your reputation, and it provides a challenge – not only to maintain your position but even to improve it, knowing the competition is tough.

According to the Interbrand 2004 Survey[3] **Telstra is ranked as the most valuable in the Top 25 Australian Brands.** This equates to a brand value of $9.3 billion in 2004. Although the brand value had declined between 2002 and 2004, the decline was attributed to the telecommunications market becoming "increasingly commoditised, with price competition leading to reduced margins."[4]

But a company's reputation is not just about its brand equity or its international ranking. **A company's reputation also includes an emotional and psychological component** – including what people think about it and what they feel about it.

And sometimes what they think and feel is a problem. Sometimes what people think and feel about a corporation is damaging to institution and to shareholder value.

Last week, I was standing in line to get a seat assignment from Qantas. The ticket lady said to the guy in front of me, "How about 2B – the Shakespeare seat?" "Fine," he said, and proceeded to the gate.

For me, well, **I got 37B, the middle seat in the back** and made two other people miserable as we tried to maneuver through dinner in close quarters.

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[3] Lloyd, S (2004): "Brand Values Surge" found at: http://www.ourfishbowl.com/images/surveys/BRW_Article_2004.pdf, p.14
[4] ibid, p.13

However, this little experience with "the Shakespeare seat" came at just the right time – because **that question from *Hamlet* goes to the heart of reputation management:**

> "To be or not to be – that is the question:
> Whether 'tis nobler in the mind to suffer
> The slings and arrows of outrageous fortune
> Or to take arms against a sea of troubles,
> And by opposing, end them?"[5]

Indeed, **reputation is a quality that changes – and can, by intentional actions, be changed – over time, sometimes dramatically**. Your reputation, after all, reflects what you do. As Tiny Tim famously said, "You are what you eat." **You come to be known by what you do.**

Moreover, just as **you have to break eggs to get an omelet**, the process of building or changing a reputation sometimes requires a **crisis or controversy**. Reason: You have to **overcome inertia, traditional ways of thinking, well-established images** – often reinforced by experiences – that often make it hard to dislodge a reputation that is a barrier to advancing personal or institutional interests

The problem. Reputation management is a big issue for the new management at Telstra. The reason: We have, in Shakespeare's terms, "a sea of troubles" – primarily with the way we are singled out for regulation, despite a brutally competitive environment, and the way in which **onerous and intrusive regulations increase our costs and/or prevent us from increasing revenues.**

That's why **reputation management is one of the top issues on the agenda of my CEO** and why it is *the* top issue on my agenda as head of public policy and communications.

Reputation management is a big issue because **the reputation of Telstra among government leaders, the public and even shareholders is not a healthy one.**

[5] *Hamlet* (III, i, 56-61)

It is not healthy because Telstra's reputation as a community property doesn't reflect reality. And when reputation and reality are out of whack, major problems are inevitable.

What *are* you as a company – and how do people *see* you? That is the question. And what is the scope and magnitude of the gap between how people see you and how you are – and what will it take to narrow that gap?

When our new management team arrived last July 1, we discovered over the first couple of weeks that **there are three separate, but overlapping and mutually reinforcing views of Telstra.** These are images of:

- Telstra as a government agency,
- Telstra as a community property, and/or
- Telstra as a "magic pudding"[6] or some combination of the above.

We also found that management is often described in terms of faceless, "brown cardigans" lacking in passion and personality.

As a result, we came early to the view that there was a **clear and present need to challenge those images and to set the record straight.** And this view was put forth first and most emphatically by our CEO, Sol Trujillo.

Sol took the view that we had to oppose the "sea of troubles" for one clear reason: Telstra is a shareholder-owned company. Our shareholders have rights and expectations that are well-defined in law – and our management and Board have corresponding responsibilities.

However, **carrying out those responsibilities to shareholders is often in conflict with some of the dominant images of Telstra. The reason:** Each of the distorted images creates expectations that are incompatible with our

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[6] For my American readers, "magic pudding" is a pie, except when it's something else, like a steak, or a jam donut, or an apple dumpling, or whatever its owner wants it to be. And it never runs out. No matter how many slices you cut, there's always something left over. It's magic. But in reading the children's classic, I discovered that "magic pudding" is also alive. It walks and it talks and it's got a personality like no other. A meaner, sulkier, snider, snarlinger Pudding you've never met. That is a part of the "magic pudding" that some people have forgotten. *The Magic Pudding* was written by Australia's Norman Lindsay (1879-1970) to settle an argument with a friend who claimed that children liked to read about fairies. Lindsay argued instead that they liked to read about food.

responsibilities as a fiduciary for 1.6 million shareholders, each of whom has shareholder rights regardless of how many shares they hold.

Consider the mistaken images.

> **Telstra as a government agency**. From the earliest days of European settlement in Australia, communication services have been seen as the exclusive responsibility of government.[7] Indeed, until the early 1990s Telstra was a government agency. Beginning in 1997, however, Telstra was increasingly privatized [8]– as the government sold share in Telstra to more than 1.6 million shareholders. Telstra was changed forever once the first punter bought a share of stock in Telstra. Under the securities laws of Australia, both the Board and the management now had to pay attention to shareholder rights and the requirement to treat all shareholders equally.
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> Still, many people still consider Telstra as a government agency. We have newspapers calling to ask all kinds of questions that they would never ask the management of Woolies or David Jones or Coles Myer or even Qantas. They

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[7] Section 51(v) of the 1901 Australian Constitution gave the new national government power over all postal, telegraphic, telephonic and 'other like services'. The latter encompassed future developments such as radio, television and the Internet.

[8] On 1 July 1997, the industry was opened up to full competition. All limitations on the number of licensed players were removed and anti-competitive conduct was prohibited. Telecommunications regulation was aligned with general competition law, with the Australian Competition and Consumer Commission(ACCC) overseeing competition policy regulation across all sectors. The Australian Communications Authority (ACA – now ACMA) still provided some technical regulation, but the main emphasis was on encouraging industry self-regulation. The Australian Communications Industry Forum (ACIF) was established as an industry body to facilitate and manage this regulation, including the development of codes of practice and technical standards. To allay concerns regarding the maintenance of service standards, legislative safety nets were introduced, ensuring that the Universal Service Obligations (USO) that had always applied to Telstra would now also apply to the new telecommunications providers. These obligations aim to guarantee the rights of end users and ensure that the lucrative urban market is not developed at the expense of the rural market.

The final, and most controversial, telecommunications reform came with the partial privatisation of Telstra in September 1997. The initial sale placed 16.6% of Telstra's shares on the open stock exchange, following a trend a trend towards sale of public telecommunications providers that had been taking place elsewhere around the world for the previous decade. This move ranked Telstra among the most valuable telecommunications companies of its size internationally. The sale was also a financial success for the Government. An additional 33.3% of the company was sold off in 1999, bringing the privately owned portion of Telstra to 49.9%. In September 2005, the government authorized the sell-off of its remaining 51% stake in Telstra, permitting Telstra's full privatization.

want to know where employees live, what hotels they stay in, the salaries of middle managers and consultants – as if they are public employees paid for with taxpayer funds.

Let me be clear: The press certainly has a *right to ask* these questions – of us or anyone else. That is what free speech and a free press are all about.

However, the issue is not do they have the right to ask but do they have a *right to know*? That is a very different question.

Establishing the right to know is important because, if there is a right to know, then there has to be an obligation to tell. If there is no obligation to tell, then there is no right to know. When there is no obligation, you tell only if it is to your advantage to tell.

This is an important issue of reputation for us, today. Even as we speak, a major newspaper is asking us a bunch of questions about our employees which are, frankly, none of their business. If we were a government agency, using taxpayer funds, then the questions – or at least some of them – might be valid. That is, they would have a right to ask and we would have an obligation to tell.

But we do not receive taxpayer funds, except for contracts with the government to provide a service. Even the government's Universal Service Obligation (USO) is funded by Telstra, Optus, and the other telecom providers themselves.

In fact, the government receives huge revenues from Telstra. In addition to the billions the government *receives from Telstra* in corporate taxes, payroll taxes, GST, and other taxes and fees every year, government *revenues from Telstra* also include more than $45 billion since the first stock sale in 1997:

Revenues from T1 andT2 sell-offs	$30 billion
Revenues from dividends	$15 billion
Total Revenues from Telstra	$45 billion

Despite obvious financial and legal realities, some people, including journalists, continue to think Telstra is a government-funded agency and, for that reason, we have an obligation to open the kimono every time they ask – even though the information may be private, confidential, or of commercial value that we do not want to share.

The fact is, many of the questions we are asked we would be quite happy to answer. However, because we are in a struggle to change the reputation that abounds that we are a government agency we now resist every approach to us that appears to imply that an obligation exists because we were once (but no longer) an agency of government.

We are not public property. We have private shareholders who have rights and one of our jobs as management and one of the jobs of the Board is to protect those rights.

The same goes for our employees. They are not public employees. They are private employees. They have rights that are different from public employees, including the right to confidentiality about the terms and conditions of their employment.[9] We intend to respect and protect those rights. It is our duty.

And, finally, **we are accountable – but in a way that is very different from a government agency**. Telstra management and employees are accountable to Telstra's Board of Directors and to the corporate policies and procedures they have handed down regarding employment, procurement and all the other policy and resource management issues that boards deal with.

And, of course, **we are ultimately accountable to the laws and regulations of Australi**a and its several state and local jurisdictions. So, Telstra has accountabilities like any other

[9] The confidentiality of employment terms and conditions do not, of course, apply to the top officers and board members. Under the law, publicly-held corporations must disclose these data to shareholders and to the public, which we do in our annual report which is available for public inspection 24x7 on the Telstra web site.

private enterprise, but they are primarily to our Board and to the laws of the land.

Telstra as a community property. There is a widespread view that everyone should have a say in how Telstra goes about its business. This comes up on **issues like pay phones**, where some political and civic leaders take the view that Telstra share owners have a responsibility to subsidize pay telephones that don't get enough business to cover the cost of keeping them in place.

Indeed some of our payphones are so uneconomic that each phone call costs more than $30. **In fact, what the "community property" types are really saying is that Telstra shareholders, who have invested hard-earned savings in Telstra stock, should subsidize payphones at specific locations, even if they are seldom used.**

I recently spent a memorable weekend in Blue Mountains. I was in **Katoomba** for a day, having arrived on the train. When I grabbed a taxi, the driver asked me where I worked and I said, "Telstra." After telling me he owned 1,600 shares of Telstra stock – 600 from T1 and 1,000 from T2 – **he proceeded to give me a lecture for removing pay phones in Katoomba**. He took me to a location where, he said, the payphone was going to be removed. He was not a happy camper.

Armed with fresh data on pay phones in Katoomba that I had, by a lucky coincidence, reviewed the previous Thursday, I explained to him that **many payphone removals simply involved moving one where two existed side-by-sid**e or in close proximity and neither was heavily used.

I explained that **some payphones were so expensive that it wasn't fair to shareholders like him to keep subsidizing the phones.** If the government didn't want to pay for them through the USO, then the management of Telstra shouldn't be asking the shareholder to pay for them out of their back pocket.

About then in the conversation, my cabbie/shareholder said to me, **"You know, mate, there are some other pay phones around here that could probably be removed without causing people a lot of grief."**

Put another way, the "community property" image of Telstra is at odds with the reality of private ownership and – when faced with the facts – it doesn't take people long to understand, especially if they are part of the 1.6 million Australians who own shares in Telstra. For these people, the road to understanding is a short one indeed.

Telstra as a "magic pudding." This is, perhaps, the most pervasive reputational myth about Telstra. There is a widespread view that **Telstra is a cash cow that can be milked and milked without consequences.** "Telstra makes a lot of money," so the saying goes.

However much that might have been true in the past, the **combination of new technology and greatly increased competition means that Telstra is now facing very strong challenges to its financial well-being** – a fact that has been reported to the ASX on three different occasions during the past 12 months.

Still, policy makers continue to pass laws and establish regulations that assume that **Telstra shareholders can continue indefinitely to subsidize the social policies of the government.**

Universal Service, to underwrite telecoms services to the bush and other high-cost areas, is a case in point. Using the most recent numbers generated by ACMA, the arithmetic works out something like this:

Cost to provide telecom service to the bush	$548 million
Minus Telstra's USO contribution	- 110 million
Minus other providers USO contribution	- 60 million
Remaining deficit paid by Telstra shareholders	$378 million

> That is $378 million a year paid by Telstra shareholders to fund the government's Universal Service Obligation. That amounts to more than $230 per shareholder per year.
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> Still, the view of Telstra as a "magic pudding" – **where you can dip into the trough and rake out the cash that belongs to shareholders and give to someone else because somehow there is "enough"** and it can easily be replaced – means that this kind of dipping into the shareholders won't hurt anyone and can go on forever.
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> Well, the facts are what they are and as they have been reported: **The shareholder-funded approach to USO cannot be sustained**.

So, it is within this environment that our CEO decided we must work hard to:

- turn these images around
- show that we live in a very competitive environment
- demonstrate our commitment to protecting shareholder rights
- resist initiatives by policy makers and regulators that destroy share holder value
- tell the truth – always tell the truth.

So that's where we are today. Doing, achieving, and telling the truth. We know from the literature of our profession that after "financial performance" the most important asset of corporation is the reputation of its leadership – and especially the CEO. And that's why our CEO and senior management take a "transactional approach" to leadership – where top leaders do not just play the role of:

- advocate
- pathfinder
- coach
- collaborator
- damage control officer
- partners in discovery

By contrast, a transactional approach to leadership requires the CEO and the top leadership to be more than engaged and engaging and to have more than a compelling voice and presence, and, yes, to be adaptive and display high integrity at all time. The transactional approach requires these traits and behaviors but also embodies additional concepts:

- the idea that actions speak louder than words;
- the idea that action is character…and is viewed that way by most people;
- the idea of "defining moments" where character, capacity, ability and will are all on display as they are exercised;
- the idea that leadership is a combination of debits and credits – and that the leader must always build up a supply of credits BUT he or she must also spend them for achievements that may ruffle some feathers. But trading credits for debits to get runs on the board, to get something worthwhile accomplished is what leadership is all about;
- the idea that a reputation for truth-telling and "telling it like it is" is one of the most valuable credits you can have.

So that is where we are today. That is how we think about leadership and corporate reputation. Bottom line: You don't hoard credits, as in a popularity contest. You use credits strategically to make something happen that would otherwise have gone undone…or to persuade someone to do something he or she would not have otherwise done. Leadership, in other words, is about results.

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