

FINANCIAL REVIEW

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THE MOST RESPECTED COMPANIES 2014

It is an extraordinary turnaround for Telstra to be named 2014's Most Respected **Company**. After the tumultuous reign of former chief executive Sol Trujillo, David Thodey's five years in the job have been marked by a steady doubling of the telco's market capitalisation to \$68 **billion**, a share price trading at nine-year highs and skilful negotiations with the federal government over the national broadband network.

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The 60-year-old father of three now faces the monumental challenge of transforming the telecommunications giant into a technology business, as it acquires start-ups and healthcare companies and pushes hard into Asia.

Thodey doesn't expect it to all be smooth sailing. But he has shown an uncanny knack for building a more customer-centric culture and defusing potential controversy.

"All of us [in the Most Respected Companies list] run big, complex businesses. There are always issues but you have to set the right culture, be transparent and have the freedom to talk about issues when they come up so you can deal with them," Thodey tells Boss in his unflappable style.

"If you've got integrity and are clear on what you stand for, what you believe in and what the issues are, you can stand with much greater strength."

Many of this year's runners-up are stalwarts on the Most Respected Companies list. Last year's winner, Wesfarmers, second this year, continue to be admired for the turnaround of Coles and the dominance of home improvement arm Bunnings.

Commonwealth Bank of Australia has been recognised for the transformation of its core banking infrastructure, and rose two places to third.

BHP Billiton, which rose from ninth to fifth spot, has benefited from the efficiency and productivity drive of new chief executive, Andrew Mackenzie, who has been tasked with selling the **company's** controversial \$16 **billion** spinoff.

Rio Tinto is a new entry as shareholders warm to chief executive Sam Walsh's turnaround mission.

Australia Post's Ahmed Fahour is leading a high stakes strategy to shift the national mail carrier from letters to other services. And Cochlear has bounced back from a global product recall to launch a series of new products.

Thodey meanwhile, has won admirers for his swift handling of last year's asbestos scare: Telstra shut down work sites, set aside compensation and agreed to an independent government taskforce.

He has also been careful not to make enemies in the highly regulated telecommunications sector, rarely rising to the barbs of ministers, regulators or his competitors in the media.

Most recently, SingTel-Optus chairman Paul O'Sullivan has been vocal in urging the government "to break up" Telstra's wholesale and retail arms to avoid conflict in maintaining the NBN and suppress Telstra's market dominance and rising prices.

Thodey still won't bite. "My first reaction is to try and understand what they are saying and take the emotion out so I am clear about the issues, because it is too easy to respond to the emotion. And sometimes you just have to give it time because the emotion can take over in the moment," he says.

Thodey's tenure has run in concert with his chairwoman, the influential president of the Business Council of Australia, Catherine Livingstone, who lists Thodey's determination and values as his key attributes. "He's very persuasive; he has that resolute determination and is driven by what he believes is right," Livingstone tells Boss.

Despite cementing his reputation as a steady hand – and taking flak in the gossip columns over his preference for driving a modest Toyota Corolla – Thodey insists that doesn't mean he isn't a risk-taker. "Innovation and entrepreneurship are often equated with flamboyance and enormous risk-taking and I'm not sure that is true at all," he says.

"I am a considered person but I would also say that Bill Gates is a very considered person as are a lot of great risk-takers. But the question is, can you make big bets and do you get returns from them?" Future in e-health

Having navigated the worst of the political turmoil over the NBN, attention has turned to Thodey's appetite for risk as he finds himself in the enviable position of being cashed up and looking to diversify the business for a "new period of growth".

The former IBM executive has successfully negotiated a deal with the federal government of at least \$11.2 billion, which will equate to as much as \$90 billion over 30 years in today's money, to help build the NBN. Current negotiations involve replacing Labor's 2011 agreement to allow the NBN to acquire Telstra's copper infrastructure to build the cheaper fibre to the node network. Telstra will get the same cash or more, possibly more quickly.

Thodey also has a windfall from the 70 per cent sale of the Sensis directories business for \$454 million and the \$2 billion sale of its 76.4 per cent stake in Hong Kong mobile services business CSL.

But he must now determine how best to deploy Telstra's billions to position the company for the coming decades.

Telstra invests \$1.2 billion each year to maintain and grow its technology in the lucrative mobile network, now contributing 38 per cent of revenue. Telstra's 3G and 4G mobile network has grown from 10.2 million customers in 2009 to 15.8 million, although its growth is now slowing.

However, Thodey may well be remembered for the new course he has set in making a series of careful acquisitions of technology start-ups, healthcare services such as Swiss eHealth provider Medgate and DCA Health, Chinese car sales website Autohome and US internet video provider Ooyala.

"We are right in the heart of this whole digital transformation and we feel very strongly that we've got to really be a part of that," Thodey says.

"I think what shareholders would always say is go to where you have core strengths; don't go into unknown territory and don't go and spend money in an irresponsible way, which we would never do.

"Moving into e-health is really important because it is about building an information ecosystem and building better efficiency in health information flow and better outcomes for patients. We have been in Asia for 70 years, so how do we take what we already do today and expand it?" "Stand for something"

Thodey, an early riser and keen walker, also points to a concerted effort to instil innovation and a customer-centric culture within his 40,000-strong workforce as his proudest achievement.

He has tied the remuneration structures of his team to customer service standards and insists on reading customer complaints. Even top executives are required to make customer calls.

Telstra has also established a start-up incubator called muru-D as well as a venture capital arm known as Telstra Ventures.

"We do take enormous risks," Thodey says. "We have invested over \$4.1 billion in the mobile network in a little over three years; we have invested in Telstra Ventures; we have set-up muru-D and we've completely changed the culture."

But he doesn't try to oversell it. "Some people are very effervescent and talkative about those things. That is not my style."

Not everyone is convinced. Business commentator Alan Kohler warns that the current strategy of "buying lots of little businesses is a train to nowhere". But Thodey argues that innovation and cultural change isn't always reflected through the big, sexy acquisition of the next tech start-up or social media phenomenon.

"I have not bought a \$5 billion or \$10 billion company – I don't think that was what the company needed at this time," he says.

"We are taking reasonable bets on e-health and setting up a software division and they hopefully will yield enormous results in five years. They are not high-risk bets – no, they are very considered steps in the right direction."

Thodey says he is enjoying himself too much to consider retirement and hasn't thought about what sort of legacy he will leave.

"My job's difficult but it doesn't stop me trying. I think you've got to stand for something and then you get rated on how you go. You've got to stand for something in life and business."

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