

Managing Corporate Social Responsibilities

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Good morning, ladies and gentlemen. It's a great pleasure to be at PBEC this year; the subject of this year's conference could hardly be better chosen. There is scarcely an economy or industry in the world that is not affected by the growth of the Pacific Basin's re-invigorated economies; indeed, it is a subject I am asked about wherever I travel, be it Acapulco or Athens.

My remarks today are about another development which has rightly become a subject of considerable importance, corporate social responsibility.

This is a subject that often seems to defy definition. When we ask the question, 'what is CSR?', the answer might include reference to corporate governance, diversity, human rights, credit policy, executive compensation, philanthropy or any combination of these, depending on who you ask. What's more, the breadth of topics encapsulated in this neat abbreviation are constantly expanding and changing; and the demands of some NGOs are mutually incompatible.

But in my view, although it is not often articulated in this way, at its heart the debate about corporate social responsibility is essentially society's demand that capitalism proves that it works for the greater good of mankind, and does not benefit just a few, and that it behaves in a socially acceptable way.

From this definition, it's obvious that CSR is not new. Although the term may have only been coined in the 1950s, by an economics professor at the University of Illinois, the actual debate about the role of capitalism and free markets in our societies dates back centuries. An 18th century politician in the UK described corporations as having "neither bodies to be punished, nor souls to be condemned, they therefore do as they like."

In the 19th century, Ambrose Bierce, a US writer and satirist, published a book called *The Devil's Dictionary*. Among his many less than generous definitions, is one of a corporation as, I quote: "An ingenious device for obtaining individual profit without individual responsibility."

On a more serious note, you can see the preoccupation with the social effects of industrialisation in the writings of Charles Dickens from the 1850s. Indeed, Dickens experienced the darker side of industrial society himself; he was a victim of pirating – or theft of his intellectual property rights as we would say today – on a massive scale (particularly in the USA). Karl Marx published his major critique of capitalism, *Das Kapital*, in 1867.

Fast forward to the twenty first century and the film released in 2003, *The Corporation*, concluded that if the corporation was a person, it would be a psychopath. Singularly self-interested, irresponsible, and willing to put others at risk in its pursuit of profit.

Today, some of this antipathy stems undoubtedly from the several examples of egregious corporate behaviour we have witnessed in recent years. These have rightly tarnished the reputation of the perpetrators, but sadly and unfairly also of business in general.

So the question is: can free markets and capitalism in the 21st century benefit society as a whole?

For much of the twentieth century, the ideological conflict was whether free markets and capitalism on the one hand, or communism on the other, was the best way to run an economy. Ultimately, capitalism prevailed, proving no doubt that averaging up is better than averaging down.

Like many of you, I was fortunate to witness first-hand the amazing transformation of Asian societies through the adoption of the market mechanism, which has dramatically raised the standards of living of hundreds of millions of people. So, to misquote Winston Churchill, it would seem that free markets are the worst way to run an economy, except for all those other forms that have been tried from time to time.

Today, the challenge for capitalism and free markets is to prove in absolute terms that they serve the overall good. Economic success should be measured not by the standard of living of a society's most privileged members, but by the living standards of its least privileged members.

**role of capitalism
and free markets**

In a world where 15 per cent of the world's people own 80 per cent of its wealth, it is clear that capitalism still has a lot to prove. Governments, NGOs, customers, shareholders, the media, and civil society as a whole are demanding higher standards of performance and greater accountability.

So are our employees; my colleagues are a very important constituency in this debate. In fact, in a survey carried out in Hong Kong last year, 96 per cent of our employees told us that they thought our social and environmental responsibilities were important or very important.

This is the context that frames the debate about the role of corporations in our society.

As you may be aware, I have spent the whole of my career with one company, and I was fortunate to join a company that had a deeply imbued and long-standing belief that in order to fulfil our duties to society, we had to be a force for good in the wider community, that is, beyond those people who had the money to have a banking relationship with us.

We continue to believe that our greatest social responsibility is to be a successful company. Our profitability allows us to contribute to society in numerous ways. Without bottom-line success, we cannot make a difference. As a result of our success in 2004 we were able to distribute US\$8.5 billion to our shareholders; to pay US\$13.5 billion in salaries to our 253,000 employees; to spend US\$9.6 billion dollars on premises and procurement in the countries in which we operate, and to pay US\$5.5 billion in taxes worldwide.

So we believe that being successful is the primary way of fulfilling our obligations to our customers, shareholders, colleagues and the world at large. At the same time, we recognise that no company can succeed in a failed world. So every successful company, whose success is derived from the country or society where it operates, has a responsibility to contribute to the development of that community. To give something back.

This is not a sudden revelation at HSBC. Our archives record donations by the Bank to help found Hong Kong's hospitals and universities, and contributions to disaster relief across Asia, dating back as far as the 19th century.

Although, for me, perhaps the most telling evidence of HSBC's sense of civic duty came here in Hong Kong in the immediate post-war period. During the war, nearly HKD120 million of HSBC banknotes had been issued illegally without any currency backing – the so-called 'duress notes' – and the bank was under no legal

obligation to validate them. In fact, the bank honoured the notes in order to protect the innocent Hong Kong citizens who held them, and to allow monetary and commercial life to resume in Hong Kong as a result.

The bank took a direct hit to shareholders funds of HKD16 million – equivalent to around 14 per cent of our shareholders' funds at the time. A fantastic example of corporate social responsibility before the term was even coined.

At HSBC today, we have found our greatest challenge lies in making explicit what has always been implicit. My colleagues love to help in the community, but they are reluctant to talk about it. So we have difficulty in knowing how much good we are doing!

CSR is most definitely not a matter of box-ticking, although it's perfectly understandable that in an era where there have been a lot of corporate scandals, people are sceptical of the way corporations behave and want tangible evidence of their actions, and not just fine words.

At a Group level, we have therefore spelt out our commitment to CSR worldwide in our annual report and our internal strategic plan, as well as setting in place comprehensive measurement systems to record and report on what we do.

Our strategic objectives call on us to make HSBC one of the world's leading brands for customer experience and corporate social responsibility. They also call on us to grow our revenues through a world-class, **ethical** sales and marketing culture.

To ensure we meet these standards, we have chosen to adopt a number of international codes of conduct, principles and standards that govern how we do business, including the Equator Principles, the Global Sullivan Principles, and the Global Compact. These commitments are in addition to our internal codes of conduct, whose origins date back more than a century, and have become today clear statements of the ethical values and business principles we expect all our employees to uphold.

These principles and values are reinforced in all our training programmes; every employees receives an average of five days training a year.

Our goal is not, and never has been, profit at any price. We have known always that, in business, there are profits you should not make. Last year, for example, we declined to become involved in 12 project finance transactions which did not comply with, among other things, the Equator Principles which we adopted in 2003. More important still, by applying these principles to other deals, we believe that at least three projects we

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financed improved their environmental and social standards.

These external standards are buttressed by our own internal principles and operating standards, which are applied consistently across the world, and which we hope will be an influence for good.

HSBC's anti-bribery and corruption policy is an example of how an international business such as ours acts as a force for decency, helping to raise standards through the way it conducts its business. And the recent introduction of a robust environmental risk standard, and specific guidelines for environmentally sensitive sectors such as forestry and freshwater infrastructure, are allowing us to work closely with our customers to lessen the 'indirect' impacts of our business.

We are also managing the impacts of our own operations on the environment and on local communities. We do this in several ways.

Firstly, we are looking to manage the direct environmental impact of our own operations around the world – we have 9,800 offices – minimising our waste, water consumption and carbon emissions.

We were the first major bank to commit to going carbon neutral, which will happen next year – and we hope to lead by example. To achieve this ambitious goal we are becoming more energy efficient. For example, the installation of more energy-efficient chillers in our Hong Kong head office will cut carbon dioxide emissions by 1,000 tons a year. It will also reduce energy consumption saving us over HK\$1 million annually; a 'win-win' that really does warm a banker's heart!

Of course it is impossible to eliminate carbon emissions by energy efficiency alone and so we will also be investing in carbon offset initiatives to counterbalance the remainder of our impact.

And secondly, we are supporting the communities where we work through employee involvement and charitable donations. Last year, HSBC employees spent 237,000 hours of working time supporting communities – over 38,000 of those hours devoted to community initiatives here in Hong Kong.

Our charitable donations in 2004 totalled almost US\$70 million; in Hong Kong we have been the biggest corporate donor to the Community Chest since 1999, and we were recently named the top multinational donor in China by Forbes China.

As a Board policy, we focus our donations in two areas we believe to be of worldwide concern and value.

Firstly, education. We have seen that education is the key to giving people better opportunities in life, and we support thousands of education projects around the world in primary and secondary schools aimed at providing a springboard for children and young people, particularly those most disadvantaged in their own communities.

Secondly – and in keeping with our belief that climate change is the biggest environmental issue facing the planet this century – we focus on environmental projects. We have a global programme, *Investing in Nature*, working with major environmental charities to protect plant biodiversity, conserve freshwater ecosystems, and to provide environmental education.

And we also support local projects; in Hong Kong, for example, where we were a founder member of the Business Environment Council some 20 years ago, we have sponsored a wetland management training programme since 1998, and are major supporters of the Hoi Ha Wan Marine Park.

This is a whistlestop overview of some of the issues that concern us at HSBC. I trust that the seriousness of our commitment is clear, but in case it is not, let me assure you that it is an issue that has Board level attention. In 1999, we were one of the first companies to ask a non-Executive

Director to take oversight of our community activities. Then, in 2003 we established a CSR Committee of the Board to advise on and to monitor our performance across this whole area.

I have no doubt that the work of this committee will increase in the years ahead, as companies come under ever greater scrutiny.

Ladies and gentlemen, the businesses represented at this forum today are hugely diverse, and the issue of corporate social responsibility will impact all your companies in a different way. But the pressures on us all to demonstrate that we contribute to the greater good of mankind will be the same. Society wants more than profits from big companies. I, for one, passionately believe that in the 21st century what will distinguish one company from another is their character – how they behave; how they treat their clients; their colleagues; their shareholders; and how they treat their community. Only those with the highest standards of behaviour will be successful in the long run.

Thank you. Now I'd be very happy to take your questions.

**business can be a
force for decency**