

# WINDSOR LEADERSHIP TRUST

## Creating a Business that Builds on Cultural and Economic Diversity

Speech by Stephen K Green

Group Chief Executive, HSBC Holdings plc

December 5 2003

Good Morning Ladies and Gentlemen.

Let me thank the Trust for this opportunity to speak to you. The theme of this conference is about the challenges of cultural interaction. I want to explore, from a commercial point of view, how business can celebrate and build on diverse cultural influences in ways which play a major role in long-term success.

You cannot talk about international business today without talking about globalisation. Ugly and ill-defined word though it may be, globalisation is the ocean in which we all swim. There is hardly a single think-tank, business conference, seminar or discussion group where it doesn't rear its ugly head. Yet of course, globalisation can mean many different things to different people.

Do we, like Francis Fukuyama, see it as "the end of history ..... the final point of man's ideological evolution and the universalisation of Western liberal democracy as the final form of government"? (Albeit Fukuyama himself acknowledges that if this is the final form, it may have won the victory in the realm of ideas but not yet in the real world.)

Or do we, like Samuel Huntington, believe that globalisation is the battleground for the conflict between what he sees as the seven or eight major civilisations: Western, Confucian, Japanese, Islamic, Hindu, Slavic-Orthodox, Latin American and possibly African (his categorisation not mine)? That the shifting tectonic plates of these civilisations are bound to create fault lines of conflict and struggle; whether that be on a global or a regional level.

Or are the issues about world trade and all the minutiae of the Doha round, about agricultural protection, about services trade liberalisation, about job migration?

Or is it just old wine in new bottles? If you go to see the Hoxne Hoard at the British Museum, 1,600 year old Roman treasures discovered in Norfolk, you will find silver pepper pots. Which means international trade was alive and well years ago – the Roman Empire traded with many countries including India, China and Arabia.

You all know Columbus as a great navigator. He sailed in three ships, the largest the Santa Maria, a sixty-footer. In the West we forget that, 80 years before, Admiral Zheng was sailing throughout the South Pacific, the Indian Ocean, the Persian Gulf and Africa visiting dozens of countries proclaiming the magnificence of the Chinese empire, and forging trading relations. On his voyages, Zheng commanded 300-plus ships with perhaps 30,000 men; his flagship was 440 feet long.

So is globalisation therefore simply a continuing theme of our evolving history. Or has modern technology been a transforming and transcending influence - such that globalisation is the consequence of the revolutions in transportation, computing and telecommunications; the inexorable result of Moore's Law?

Well, fascinating though these questions are, I'm not equipped to answer them!

Rather than tackling complex philosophical and historical questions, I am here today to look at the day-to-day challenges for business and from the

particular perspective of HSBC. As a company, we are more international than most - but our experience is in many respects typical of the challenges facing business in this modern globalised world.

So let me tell you a little about HSBC. We are a company with a long history. Or rather we are a company whose composite forebears have a long history.

We have been in China since 1854 when the Manchu dynasty was beginning its third century of rule. We are celebrating 150 years in India this year, 120 in Malaysia. We were literally the first bank in many countries, like Japan.

We opened in the US in San Francisco in 1812, a year when Britain and America were at war. In Chile, our forerunner's first office opened in 1826, when Simon Bolivar was liberating South America from the Spaniards.

Here in the UK, we trace our lineage through Midland Bank back to Wright & Co in the mid 18<sup>th</sup> century. In

**cultural  
interaction**

Germany, through Trinkaus und Burkhardt since 1785.

So we have a strong heritage and we have also lived through some interesting times. I was in Tianjin last month and I came across the old HongkongBank building, a rather imposing 1920s cathedral of commerce complete with Doric columns, neighboured by the Standard Chartered and Banque d'Indosuez and next to what was the old racecourse.

Today it looks like a monument to a bygone era of banking and empire. Meanwhile we have a present-day state-of-the-art modern branch in the new financial centre.

HSBC also straddles many sensitive divides. We're in China and Taiwan. We're in Tel Aviv and Ramallah. We're in Pakistan and India. And we are in France and England - which some cynics say is to challenge several centuries of cross-channel rivalry!

We bank customers of almost every nationality, culture, religion, ethnic group imaginable. We have customers in more than 200 countries; more countries than belong to the UN - which has 191.

In a real sense we are a microcosm of the world - something we try to reflect in our brand strategy as "the World's local bank". Cultural diversity is intrinsic to our everyday experience. It's true of our 100 million customers, it's true of my 200,000-plus colleagues in 80 countries and territories, and it's true of our 190,000 shareholders from 100 countries who can buy shares on four different stock exchanges.

What is more, the constituencies that we have to engage with are themselves becoming ever more multiplex.

Our shareholders, or the people who represent our shareholders, no longer just run funds with the simple objective of maximising shareholder returns. They also run social investment funds, they have their own corporate governance departments. Increasingly, their objectives reflect broader agendas. We have to take into account guidelines on various aspects of corporate governance from any number of pension trusts, fund managers and industry advisors.

We also engage with the NGO world. Increasingly companies like HSBC are expected to explain why we do things the way we do, and also commit formally to guidelines for our activities. And we seek to respond constructively. We were a founder signatory to the

United Nations Environmental Programme for financial institutions. We are a member of the FTSE4Good ethical indices and the Dow Jones Sustainability Index.

We are a corporate member of the United Nations Global Compact, a signatory to the Global Sullivan Principles which addresses issues like human rights and employment issues. We have adopted the Equator Principles which assess the impact of long-term commercial lending in terms of the environment and social issues. We are a supporter of the Global Business Coalition on HIV/AIDS.

All this is as well as engaging with NGOs on specific issues. We talk to people like the World Wildlife Fund. And we don't just talk; we listen. And we change what we do.

This, I think, illustrates one of the complexities of an international brand. There was a time when branding theory focused on single global brands with a simple product-related meaning which was uniform everywhere - McWorld. But we believe the brand should carry with it - as an intrinsic element - a commitment to cultural diversity and to corporate social responsibility.

So what are the leadership challenges in a multiplex world like this?

It is not enough simply to say that we are charged with maximising profits in a competitive world. We are a business, not a social welfare agency; of course we have to do this. We have to do all the usual business school stuff. We have to ensure that our strategies are competitive and deliver profitable growth. Or the business dies.

But any business school model is vacuous if it is not set in the context of real-world experience. So what do we need to do?

My answer is this. We have to make sure that we are sustainably competitive and profitable by:

- one, managing our people in all their diversity;
- two, managing our resources internationally;
- and three, discharging our corporate social responsibilities to the full.

First diversity.

Customer diversity is a fact, therefore the key to success is to celebrate and develop diversity amongst your colleagues.

Diversity is about differences.



Different ways of eating together, different ways of exchanging business cards, different rules of life, and so on.

And of course in these days of globalisation, different cultures jostle alongside each other in many places as never before.

We at HSBC have this diversity because of our geographical spread. But actually, we – and many other more domestic companies – meet much of it in just one place.

Take the UK, for example. This is a market which is itself becoming more and more diverse in terms of the ethnicity of the client base, and also through social changes like the increased participation of women in economic life. London is one of the best examples of all. It has more than 30 different linguistic communities of over 10,000 people.

And in any market, it makes nothing other than complete sense to ensure that we are responsive to the needs of our customers.

We sometimes do this in very specific ways with particular products or offerings. Let me give you a few examples:

we have specialist branches in the UK for Indian businesses;

we open our branch in a part of north London with a large orthodox Jewish population on a Sunday;

we are the only high-street bank in the UK to offer a shariah-compliant mortgage for Muslim customers.

These initiatives do a number of things. Firstly, they satisfy a specific need for our customers; something that should lead to profitable business.

Second, they send out a clear message about the way the company is: a crossroads of the world, just as London is a crossroads of the world.

The only way that you can make a reality of this is by building on diversity of your people. Drawing on experience, intuitions, contacts. We can offer Islamic banking here because we already do so in Muslim-majority countries around the world. And so we have the experience and the people to do it in a way that gives us a head start over others.

People are important and the experience of cultural diversity is important. We believe that people should not get to top levels in HSBC without having this experience. Our deputy CEO in the UK bank is a Welshman whose previous two jobs were in Malaysia and India. He will tell you that his experience has

broadened his perspective and made him a better manager.

We have a Lebanese running our business in Brazil, we have an Indian in Malaysia and in Hong Kong. There are other examples too. It all helps us listen to our customers.

What's the uniting factor here? Well as a Group we have that deep well of international experience we can draw from.

If we do our job right, we listen to what our customers want. And then we can build products and offerings like the ones I mentioned, because we have people with the experience to do it. We believe we know what makes a culture tick – and therefore how local markets work. If you've seen our ads, you will have heard that message.

The main point is that diversity is a positive thing, something that ups your game. We should not do this just because the alternative is not politically correct, but because it is in the interests of our business to do so.

To get this right, we have to have the commitment to manage the process from one environment to another. To have your eyes open enough to see the opportunity and then do something about it. To recognise the possibilities and make them reality.

And, of course, we need to remember that diversity itself is diverse. Some countries in Asia and the Middle East specify that a certain proportion of employees must be from a certain ethnic background or nationality, something that would be illegal in other countries. In some countries we are required to report our employees' ethnic status; in others we are forbidden to ask. Diversity requires that we respect diverse approaches to diversity.

This means respecting the local cultural norms wherever we operate. For instance, our bank in Saudi operates a number of women-only branches. Some 11 per cent of our workforce there is female, which you may think low if you apply Western standards. But actually it is more than three times the national average and the highest in the financial services industry.

Respect for diversity is often intangible. You can measure one part: say nationality or gender; but it's impossible to measure diversity in its fullest sense because, if taken to its widest extent, everyone is unique and in a group of one.

**increased participation**

So real competitive advantage derives from acknowledging this and then managing your resources to respond to the diversity in your customer base by building on diversity in your employee base.

Which leads me on to recruitment. It is incumbent on us as an employer to get all the competitive benefits that come from drawing on the richness and variety of the whole population of whatever market we're in.

First of all, we want to attract the best people and we want the best to rise to the top. The wider the net you cast, the better the chance of catching top-quality specimens. And you also have a chance to catch fish that you wouldn't find in home waters. In other words, diversity is essential to true meritocracy.

Like almost every large company, we have made good progress in this, but in some things we have a way to go.

The fact that I couch it in terms of progress begs a question. Why do we need to change? Because businesses reflect society and as society changes, we must change. It is easy to forget how much social mores have changed dramatically in this country during our lifetime.

As a result, we have to deal with the historical legacy so far as many different issues are concerned.

I joined HSBC in 1982. In that year, 7.5 per cent of managers in the then Midland Bank were women. In 1992, the year HSBC acquired Midland, the figure was 21 per cent. Last year it was 34 per cent. The trend is clear – we don't know how far it will go but our equilibrium point is where there is no glass ceiling and we have put the policies in place that make it possible, for all those that want to, to fulfil their potential, through a career in the Group.

Another example. Every year HSBC recruits several hundred graduates. These are our senior managers of the future. We develop them very carefully giving them experience of all facets of banking and the opportunity to work in different countries around the world.

Twenty or thirty years ago, those being recruited in HongkongBank as the top managers of the future were an ethnically diverse group; they were either English or Scottish! And, of course, all male.

Today we recruit graduates from all around the world. And this year's intake comprises some 50 nationalities, two-thirds male, one-third female.

I don't want you to think that I am just blowing HSBC's trumpet. Actually, our progress is uneven

and we are far from where we need to be. It's like being halfway up the mountain. When you look down the valley you can see how far you've come; but when you look up, you've still got a long way to go.

For instance, while our board is probably one of the most ethnically diverse in the world, changing the profile of senior management takes time.

If we take gender, today we have one woman amongst our most senior managers – out of a total of about 30. This imbalance reflects the consequences of recruitment policy 20 or 30 years ago. It's a situation I am ashamed of.

On the plus side, I can see quite good progress at middle management levels, and I am confident when I look at the front end of our recruitment today, that in a generation's time it will look completely different, as long as we stretch our people, develop them, motivate and retain them.

Yes, of course we have to have policies in place to address issues like flexible working practices; yes, we have to create an environment where people feel wanted and diversity is visible and valued.

There is plenty of detailed policy work to be done to get the conditions right. If we want to be the world's local bank, what else could we do? Diversity creates the potential for competitive advantage. But you have to manage the process not simply to will it.

But I think the fundamental point I would make is that diversity is not a diversity issue; it's not an HR issue; it's a business issue.

We do not aspire to be a unicultural company. I am certain that HSBC derives competitive advantage from our cosmopolitan mix. If my French colleagues lost their French-ness or, God forbid, my Brazilian colleagues their Brazilian-ness, life would certainly be a lot duller for me and HSBC would be a lot less profitable.

The second of our key challenges is to manage our resources internationally. In fact this is one of the key competitive advantages of an international group. If we do not do this, we are simply a federation of local entities, which do not add value to each other.

So, for instance, we developed our first computer systems in the 1960s in Hong Kong which we used in the rest of Asia.

In a similar way today we have five IT centres around the world – in Canada, the US, Hong Kong, India and the UK doing our systems development work for our operations in 79 countries and territories.

**ethnically diverse**

This exploration of comparative advantage is not limited to IT. In our treasury business, we have three main centres, Hong Kong servicing 18 countries in Asia; London/Paris for Europe and the Middle East; and New York for NAFTA countries. We do some data processing for our Middle East operations in the UK; there are many other examples.

So there is already a complex cat's cradle of work being done in one country on behalf of customers in another. I don't find this at all strange.

In a modern society such as Britain, we are well used to having the opportunity to consume physical goods that come from all over the world.

The new phenomenon is that services are going to be sourced in a similar way from all sorts of countries round the world. What makes this economic, in a way it never has before? The answer is: telecommunications costs. Just one example: the cost of a phone call between India and the UK has fallen by 80 per cent in the last two years. It is inevitable that companies will begin to exploit the opportunities this new globalised telecoms environment presents.

In our case, we now have over 7,000 colleagues in service centres in India, Malaysia, and China, providing a whole range of services - payments processing, credit approvals, call centres, and so on - to customers in the UK, the US, Hong Kong, Australia and elsewhere.

This facet of globalisation is causing some disquiet in developed economies. And indeed, it is fair to say that it is arguably their biggest challenge over the next generation.

But experience suggests that economies with flexible job markets will be able to adjust.

In Britain, manufacturing accounted for 26 per cent of total employment in 1979 and less than 13 per cent today. But equally in the last 25 years, while some 3.3 million jobs were lost in manufacturing, service sector employment rose by 6.5 million. And over the last 40 years, when the shift from manufacturing to services took place in Britain, real wages have doubled.

Clearly some sectors are better insulated from change than others. Many jobs are geographically fixed. For instance, leisure and tourism are local in nature; you can't move a hotel or airport offshore (although you can move their sales ledger). There are others: public sector work, entertainment, hospitals, even agriculture. The key factor for society, as always, will

be education which allows the workforce to move to higher value jobs.

And the winners amongst companies and countries will be those that supply their customers with the goods and services they want at the best price.

This fundamental truth is vitally important today when we talk about service jobs moving to locations where they can be done most effectively. For this is an absolutely inevitable process. As King Canute understood, you cannot turn the tide back.

Nevertheless the understandable disquiet remains. When HSBC announced the creation of 4,000 jobs in our global service centres to service customers from, among other countries, the UK, the press response here was intense. And understandably so. Because if you look at the issue locally, it is true that the effects are problematic.

HSBC seeks to be a decent and fair employer. We work very hard at managing this process of change as sensitively as we can for our colleagues. For instance, in the UK we have set aside £4 million to support and advise staff affected by the changes.

We aim to achieve our objectives through a headcount freeze, through natural attrition and voluntary redundancies with as few compulsory redundancies as possible.

But I acknowledge that no matter how sensitively we handle this, it cannot be painless. But we do this because we absolutely believe that by not managing this process, we would be abrogating our responsibilities to all our 200,000-plus staff as well as customers and shareholders. Because if you hide from this issue or pretend it's not there, the reckoning will come later.

I should also say that we are proud to be creating good-quality jobs in countries that desperately need them. There can be no doubt that the disparity in income between developed and developing countries is untenable. So not surprisingly the perspective is different in developing economies.

We create great jobs in state-of-the-art facilities. This helps boost the local economy in any number of ways: infrastructure improvements, training of the workforce, the introduction of global best practices, and the creation of new jobs in the service and supply sectors.

In the long term, this will help create new consumer markets for developed countries to trade with, and economic benefits will accrue to both countries. Indeed research by McKinsey shows that for every dollar of labour costs moved from the US, something

**decent and fair employer**

like \$1.45-1.47 of value-added is created globally of which the US captures \$1.12-1.14 and the receiving country 33 cents.

So this is not a zero-sum game.

I should also add that global resourcing of jobs is not a one-way street and sometimes organisations like HSBC can play an enabling role. For instance we have a corporate client in Malaysia who is planning to set up a food processing operation in Aberdeen next year, which will create 70 new jobs. The fact that we can help him in this country was a key factor in his decision to proceed. There are many examples of this sort of thing.

Finally, the third business challenge I want to look at which is posed for us by globalisation is that of our role in the wider communities in which we operate.

And here the key theme is corporate social responsibility, albeit that phrase is becoming something of a cliché or buzzword.

This includes some things which are obvious, or should be. It includes good corporate governance - a topic which has received a lot of attention in recent times. And it includes regulatory compliance in its fullest sense: the letter and the spirit of the law. In our case, our business comes under the purview of some 350 regulators around the world.

It also includes what the bank does to support the communities within which we work. Some might treat this as conscience-salving or as a sop to the NGOs – what in the world of environmental pressure groups they call greenmail!

We don't believe that to be true. We believe that our activities in this area are responding to clear expectations by shareholders, clients and colleagues.

In recent years we have focused on two main projects: educational and environmental projects. We gave US\$34 million last year, of which US\$12 million was invested in education and US\$11 million in the environment.

We support literally hundreds of educational programmes around the world. We look to give children opportunities they would not otherwise get. So we work with children from disadvantaged backgrounds and we help talented children with scholarships.

We also support attitudinal projects which give children the chance to feel what it is like to take on a challenge and succeed.

One of the most extraordinary ones - a really moving experience for all those who see it - is the Kielder Challenge, which is a sort of "outward bound" experience which gets able-bodied and disabled kids working together in competing teams in the Kielder forest in Northumberland. This apparently simple-sounding formula has a quite amazing impact on the children involved.

Our other large strand of support is the environment. We have a US\$50 million, five-year programme called Investing in Nature in partnership with WWF, Botanic Gardens Conservation International and Earthwatch. And in the process, we have made the largest ever single donation to each of those organisations.

With WWF, the work is about fresh water, with BGCI we are helping conserve and document 20,000 rare plant species in botanic gardens around the world. Some of those plants would be extinct without our help.

Our work with Earthwatch is perhaps the best example of fulfilling our obligations in an HSBC kind of way. Earthwatch is a charity which sends out people to work as volunteers on scientific research projects around the world.

What we're doing is taking 2,500 of our people over the five years, giving them two weeks off work, paying for their travel and for them to participate on a research project. That can be anything from sharks in Madagascar to temple monkeys in Sri Lanka.

I visited our business service centre in Hyderabad recently; I ran into a manager there who had just spent two weeks on one of these projects.

He'd been to Lake Baikal looking at the unique flora and fauna in what is the largest body of freshwater in the world. He was bubbling with enthusiasm and he was also going to set up his own project in Hyderabad.

But discharging our responsibilities is not just about spending company money. Another, arguably more important component, is the community work, the volunteer work we do. And by we, I mean my colleagues around the world.

Wherever I go, I see the hard work done by my colleagues. I've seen it in Sheffield, I've seen it in Singapore. In Sheffield where we are the largest private-sector employer, we support many initiatives, as a company. For instance, we have supported the Sheffield North Education Action Zone, with half-a-million pounds over the last five years. And my

**enabling role**

