

## Preparing for the future – Can our boards deliver?

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Good morning ladies and gentlemen.

We live in a complex world, as we all recognise.

How Boards respond to that complexity is the subject of my remarks, and I would like to highlight one responsibility which is at least as important as their role in business strategy or in corporate governance, which is in fact essential to sustainable success: the importance of values to value.

But first, some context. Clearly, the Board's primary responsibility is to the company's shareholders, who have entrusted their capital to the company. To state the obvious, it is our duty to try to maximise the value of the company and the returns to shareholders.

But if a Board is to serve the company's shareholders interests, there are a number of other constituencies that it must also take into consideration.

- Consumers, or customers, without whom there would be no business. Today's consumers have an ever greater power of choice. Aided by the changes in technology and communications which have led to the rise of the internet, they are better informed and they have more alternatives to choose from if they are dissatisfied with the service or products of any company. Walter Wriston, a former US banker, said 20 years ago that information about money had become almost as important as money itself, and this is far truer today than it was in 1985.
- Employees. My colleagues entrust at least part, and often the main part, of their career to HSBC. They are responsible for delivering our services to customers, so their desires and aspirations are inevitably and profoundly important to the well-being of the company.
- Pensioners; an issue that has become very topical in recent years, as concerns have grown about the security of pension provision.
- NGOs and single-issue groups, whose influence has grown tremendously in recent years. Today, all businesses are called to account for their actions on a whole host, and ever-growing number, of social and environmental issues.

### the importance of values to value

- And last, but obviously not least, regulators. Regulation is a growing burden for many industries, and banking is no exception. At the last count, HSBC had 490 regulators and supervisors, and in 2005 we spent around US\$635 million globally on complying with regulatory and supervisory requirements around the world, an increase of nearly 60 per cent since 2003.

And, to state the obvious, regulators do not operate in a vacuum: their mandates are the product of policy formation in the public domain – at a national level; in some countries at a regional level (as in the US), and increasingly at supra-national level (especially here in the EU). And they carry out their task under the glare of legislative and media demands to ensure that what they consider to be the public interest is represented.

All of these constituencies make demands, some of which are contradictory, on the business of which the Board is steward. We have to respond to them in a balanced way, against a background of a market that is marked by consolidation, that is intensely competitive, and that is, thanks to technology and globalisation, changing very rapidly indeed.

So although Boards classically task management with maximising the value of a company on behalf of its shareholders, this simplification poses far more questions than it answers. For in fact, the only way in which management can meet the aspirations of shareholders, colleagues, pensioners, regulators and the wider community over time is through **sustainable** growth.

Sustainable, that is, in three senses:

Firstly, sustainable profits growth. Of course...!

But any business strategist knows that this depends upon sustainable customer relations. Offering a service that not only attracts new customers, but allows us to retain existing ones and to do more business with them.

Which is increasingly dependent upon a sustained sense of community commitment and responsibility – which, for an international business, means both a global and local commitment. Why? Because increasingly, that's what customers, colleagues and the general public want.

It is this interlinking of interests that is one of the most distinctive features of the business landscape, nationally and internationally, today. In virtually every market where we operate throughout the world, public confidence and respect depends more and more on our responding to those interests appropriately and effectively.

Now in any sector, public confidence is critical to a company's long-term success. But it is perhaps particularly true of financial services which is an industry based on trust; indeed, the word 'credit' derives from the Latin *credere* meaning 'to believe'. Public trust and respect allow us to attract and retain high quality employees, who help us to win customers and grow our business, therefore satisfying our shareholders. In other words, it allows us to do business.

In this context, how does a Board exercise its duty to ensure that the company gains and retains public confidence and respect?

First, it has a clear responsibility for ensuring that a company adheres to the regulatory regimes that govern the conduct of its business.

Public policy – in several sectors, and certainly including financial services – has come more and more to rely on regulation to underpin public confidence. This is not just about regulations governing capital adequacy, liquidity and stability; it is also about transparency, suitability and treating customers fairly. Because, let's face it, the financial services sector has not always covered itself with glory.

Regulators and supervisors have a quite detailed influence on almost every aspect of the way we do our business.

Compliance is no small task. In the case of HSBC, I think it is fair to say that there are few institutions for whom the regulatory environment is more complex – I mentioned our 490 regulators and supervisors earlier. However, it is clear that we and other large multinational companies pose as much of a challenge to our regulators as they do to us! Regulators' responsibilities are confined principally to a single jurisdiction, and yet we and many other companies now conduct our business across a number of countries, making supervision more complex, and more expensive.

One of the issues this poses for us is that of regulatory crossfire – where regulations in one jurisdiction straightforwardly contradict those in another, placing us in a difficult position. There is also the sheer volume of regulation that is coming our way, the implementation of which carries considerable execution risk, when you consider the IT development, technical advice and training that is required. We need to ensure that a cost-benefit mindset is brought to bear by all concerned if the net effect is to be beneficial.

The multiplicity of regulators and regulations has profound implications for Boards, which face an increasingly heavier burden of responsibility for governance. Indeed, I think it true to say that the expectations of regulators have never been higher and the demands on directors and management – both corporately and individually – have never been greater.

And yet we all know that successful and responsible businesses are not simply the product of rules and regulations. While effective regulation may be a necessary underpinning of public confidence, no Board these days can afford to consider that compliance with regulations alone is a sufficient guarantee of the sustained public respect which is in the end essential to sustained growth.

The collapse of Enron, once one of America's 10 largest companies, is a cautionary tale. As Harvey Pitt, who was Chairman of the SEC at the time of Enron's collapse, remarked recently: "You can have all the laws and all the regulations you want, but if people don't have a culture of honesty, integrity and ethics, all of those laws and regulations will do you no good."

The point is that laws and regulations cannot of themselves create honest and responsible companies, or public confidence. At the end of the day, the crucial factor is the culture of corporations – their values, if you will.

How do we sleep peacefully at night? It's not just the rules and regulations that allow me to sleep. We need them, but rules and regulations are little more than an empty framework unless we work hard to infuse the kind of values which will gain public respect throughout the business – involving all of my 284,000 colleagues. And we have to work hard at this.

Because if companies are to achieve **sustainable** profits growth, they need to underpin their business model with a set of values that are embraced in every aspect of their business and which will gain public respect. Business strategy needs to be based on clear competitive advantage, obviously; it needs to be executed energetically and efficiently, obviously. But a culture of values is essential to long-term success, too; or, to put it simply, values matter to value.

But this begs the question; how **does** a company, indeed how does its Board, ensure that the company really aspires to the values it espouses? This is in some ways a very difficult question to answer, and in others an easy one.

If you take HSBC, for example, we are a company with more than 9,500 offices around the world, in 76 countries and territories. HSBC feels like a kind of meeting place of the world, a crossroads of different cultures, of people from different ethnic backgrounds, and religious and other persuasions. The diversity of my colleagues – collectively we speak some 130 plus languages – reflects the diversity

## honesty, integrity and ethics

of the customers we serve around the world, and of people on the planet.

In some respects this might seem to make it difficult for a company to adhere to a single set of principles. Yet for all the obvious cultural diversity, one thing that constantly strikes and impresses me is the extent to which my colleagues share the same desire to work for a responsible and respected company.

I believe this is true of most organisations, large and small. Most of us, most of the time, want to be able to look in the mirror each morning and feel a sense of pride in the work we do, the company we work for and the contribution it makes.

A company's culture is a central component of its ability to be successful over a sustained period of time. All companies, and particularly those with a long history, have an inherited corporate culture. One of the most important tasks for any Board or management, as part of its duties of good governance, must be to nurture and strengthen the corporate culture.

It should be the subject of explicit discussion at Board level: how the corporate culture has evolved; how it is contributing to sustainable shareholder value; how it can be nurtured for the good of future generations. And not in self-congratulatory mode, but with an – at times uncomfortable – spirit of self analysis.

Nurturing a company's personality, its values and ethics, is not an exact science; it can't be represented in figures on the profit and loss account. But it is no less important for that. It is nothing less than an essential leadership task of Boards and top management.

However, values are not something that can be prescribed simply by edict from the centre; they run much deeper than that. In every interaction with fellow human beings, individuals have opportunities to influence behaviour. Every individual has the power to live by – or to abuse – those values and to influence their colleagues to do likewise, however many or few people they have reporting to them on any organisation chart.

So I consider that every one of my 284,000 colleagues has a leadership role to play in this respect. Companies will only be seen as responsible and a force for good to the extent that each and every employee lives the company's values.

A company's brand is an important standard bearer for those values, internally as well as externally. Companies

which seek to position themselves as committed to treating their customers fairly – and which companies do not at least say that they strive to do this? – create brands which resonate with colleagues as well as with the wider world; a company's aspirations are understood internally as well as externally. So it is a real challenge to truly 'live the brand'.

This is easy to say, but so much harder to deliver. Mainly because it cannot be easily pinned down to a single action. It's a multitude of smaller things that add up to a bigger whole. How people are recruited; how training programmes reinforce the values; how a strategy articulates a company's aspirations to be a responsible, sustainable business. How these values are buttressed by guidelines that spell out the way business should be conducted, and processes such as objective-setting and compensation. Indeed, we consider our values to be of such critical importance to our long-term success that if we are considering an acquisition that makes sense on the numbers, but that is not compatible culturally, then we will walk away from it. What this all adds up to is the importance of nurturing, underscoring and refreshing those values to ensure they retain currency throughout the organisation.

And it will never be perfect. Corporations are a human endeavour, with all the possibilities and frailties that are intrinsic to human beings. Maintaining values and culture is a task that needs perpetual renewal.

Ladies and gentlemen, we live in a world of tremendous complexity; a world of big challenges and bigger opportunities. In order to respond to these, it is not enough for a Board simply to focus in a crude sense on maximising returns to shareholders. Attending to the numbers and the strategy are clearly important, but they are not the be all and end all. A Board needs to spend time and effort on satisfying itself that the corporate culture is one that will provide a basis for a sustainable business, based on satisfying the demands of shareholders, customers, employees and the wider community.

As the former Chairman of the Fed, Alan Greenspan, said in 2004: "We should not be surprised to see a re-emergence of the value placed by the market on trust and personal reputation in business practice". How a company makes money, as well as how much money it makes, is becoming an increasingly important part of its investment proposition. In this environment, there is no conflict between sustainable growth and values.

Or to put it another way: values are essential to value.

**living  
the  
brand**