

## Good Value: Reflections on the global crisis and the way ahead

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Ladies and gentlemen, distinguished guests, good afternoon. It is a pleasure to be here and to have the opportunity to speak to you.

My subject today is Good Value: Reflections on the global financial crisis and the way ahead. And I would like to begin my remarks by quoting the G20 leaders' statement from London in April. They said:

"We start from the belief that prosperity is indivisible; that growth, to be sustained, has to be shared; and that our global plan for recovery must have at its heart the needs and jobs of hard-working families, not just in developed countries but in emerging markets and the poorest countries of the world... not just of today's population, but of future generations too. We believe that the only sure foundation for sustainable globalisation and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions."

In this single paragraph, the G20 leaders captured the key elements that I believe should guide us all as we consider what constitutes 'good value' in our economies, our financial system and the banks and businesses that comprise it.

The historians will notice that paragraph and especially the last sentence. Despite all the turmoil, the G20 leadership formally and publicly committed to "an open world economy based on market principles". The reason these words are so important is because the legitimacy and value of the market-based financial system has been questioned as never before.

Yet when the history books record their verdict on the events of the last three years I believe they will conclude that by and large, the world did a good job in tackling the financial crisis. Moreover, they will also record that thanks to an unprecedented level of co-ordinated action by governments around the world, we successfully

avoided the mistakes of our forefathers in the 1930s. Fears that we would rapidly retreat into some past world of closed markets have proved unfounded. On that score at least, we can breathe a sigh of relief.

The emergence of the G20 as the primary discussion forum for international economic affairs was an important feature in this international co-operation. A formal recognition of increased international commercial connectedness and exchange, it is also an essential acknowledgement that emerging markets – including many APEC economies – will increasingly be the driving force for growth and change in this new world.

The G7 and G8 have been marginalised – and indeed how could it be otherwise when the world's centre of gravity is shifting and when we are seeing the rise of Asia, and the re-emergence on the world stage of countries like China and India? This shift is the most important fact of the 21<sup>st</sup> century.

Since at least 1989 we have been moving irrevocably from a unipolar world dominated by one superpower to a multipolar world, mirrored in the G20.

So our great challenge over the next fifty to a hundred years is to define, and to build on, our common ground in response to the imperatives of globalisation. It is a challenge at many levels: political relationships, macro-economic management, business strategy and for all of us individually. For sure, the G20 – and hopefully the Copenhagen climate conference too – provide encouraging evidence that we can indeed rise to this challenge.

Yet we are left with the legacy of mistrust as a result of the devastation caused by the financial crisis. It is not enough just to hear that G20 affirmation: we have to make a reality of it, against the damage caused by the financial crisis. The challenge is to agree, share and realise a vision of

**what constitutes  
'good value' in  
our economies**

the future that preserves the dynamism of market forces while taming their excesses.

The G20 have set out their vision of the future, but what role will the markets, companies and individuals themselves play, and how will they bring sustainable value to the changing economy? It is this question that I shall address in my remarks today.

### **First, we need good value in our markets**

It was Susan Strange, Professor of International relations at the London School of Economics who first coined the phrase, ‘casino capitalism’. She warned in the 1980s how the speed at which markets work, combined with their near-universal reach, could result in levels of global volatility that had never been seen before. In a world where the vast bulk of market trading has no direct relation to any real business requirement, what concerned her was how the instability of active markets could lead to the collapse of national and regional economies.

Nearly thirty years on, we have seen exactly how, at their worst, financial markets can be engines of unprecedented destructive excess. The catalogue of errors that we have seen is long. It includes the appetite for higher leverage... the over-reliance on wholesale funding ... over-confidence in risk modelling techniques... and the misalignment of incentives. The past two years have challenged in a fundamental way the argument that the market always knows best.

The challenge we face – as practitioners, policymakers, and regulators – is to find the delicate balance that will encourage markets to deliver prosperity, while keeping in check those activities that fail the tests of usefulness, transparency and sustainability. It is now clear that effective government oversight, regulation and even intervention, in times of stress, are all essential. The markets cannot police themselves.

As we search for this balance at a time when much of the world is still traumatised by the crisis, let us keep in mind two things.

First, one of the stark lessons of the twentieth century is that there is no acceptable alternative to a market-based approach to development. Churchill’s famous defence of democracy – when he described it as ‘the worst form of government, except for all those other forms that have been tried

from time to time’ – applies equally well to the market. Moreover, one of the first lessons of this century, proven by the global response to the financial and economic crisis, is that we could not turn the clock back to some ‘golden age’ of a simpler, less-connected world, even if we wanted to.

Second, strong financial markets are at the heart of every successful economy, lubricating the engine of economic growth and prosperity.

In particular, financial markets have made an important contribution to the remarkable changes in countries like China and India, as they have opened up their economies. It has become received wisdom that our current era has suffered from unprecedented income inequality within western economies. But far more significant for the future historian will be the enormous increase in opportunity and reduction in hardship globally over recent decades, as a growing middle class has emerged and hundreds of millions have been lifted out of poverty in developing countries.

And what of the coming decades? The value that financial markets can bring as emerging economies develop and expand is quickly becoming clear.

First, let me take social and economic development. Next year, the working-age population of the developing world will reach a record three billion, and it will grow by another billion over the course of the next generation.

As they start to benefit from a regular income, hundreds of millions more people will need access to financial services – whether microfinance or small business lending, or savings and wealth management services as they prepare for their needs over their lifetime.

Financial markets will also continue to drive innovation and change. I mentioned Copenhagen earlier: I believe the single greatest opportunity for markets in the generation ahead will be to prove the value they can bring to the fight against climate change. I have great faith in the ability of markets to harness human capital to create man-made solutions for our man-made problems. Already we have seen the development of carbon markets through the mechanism of cap-and-trade schemes, and the growth of climate-friendly investment instruments.

**encourage  
markets to deliver  
prosperity**

But these are early days. Effective market mechanisms to encourage – and to finance – the shift to low-carbon economic growth will be essential. Carbon has to be priced properly; technological development has to be funded; investments have to be financed, if this greatest of human challenges is to be met. There is no way we can do without the market.

During this time of great demographic and economic change, fresh thinking, international co-operation and the sharing of expertise between industry, governments and society will certainly be required in order to deliver good value, social and economic development, and prosperity. The challenge is clear and, in the wake of the crisis, our markets – and the financial services industry especially – now have another chance to prove the immense value they can bring. And we cannot afford to fail.

Indeed, if this crisis leads to a genuine reassessment of the role of financial markets and an improvement of the value that they can bring to the global economy, it may yet come to rank as one of the great turning points in history of the modern world.

**Second, we also need to restore good value to the corporate agenda.**

One common underlying theme links the problems which were developing at many financial services companies in the lead up to the crisis. Simply put, it was a greedy focus on the short-term. A culture had begun to pervade many institutions that it was fine to pursue short-term returns without any concern for the longer-term consequences, or the rightness of what was done. The mantra had become one of ‘if the market will bear it, if there is a contract, then I don’t need to ask any further questions.’

It has never been the responsibility of any company to focus on the short-term, but there is no question that investors and traders have often put pressure on boards and managements to think about strategy and profitability in exactly that way. The results of that pressure are now plain to see in the broken businesses and weakened economies around the world. This was the basic failure of corporate governance, at the very least.

Of course, this problem is not by any means exclusive to the financial world, and the lesson is

one which applies equally to every company: we must reject that short-term approach to value maximisation, and get back to the real task of sustainable value maximisation.

Good value will only return when companies apply the concept of sustainability to all their business practices. Let me elaborate.

First, there is the basic responsibility to earn as good a return as is sustainably possible on the capital entrusted to the company by its shareholders. Some still think that the concept of corporate social responsibility is somehow incompatible with shareholder value maximisation, or fear it can be an excuse for poor competitive positioning, operational inefficiency and low returns to investors. They are wrong. Sustained shareholder value creation is absolutely critical to any discussion of wider responsibilities in business.

And yet it should not be – as has been the case – the over-arching objective of management in business. It should, rather, be the hallmark of business well done. This is not a new concept. As the renowned management writer, Peter Drucker, observed: *"Profit is not the explanation, cause or rationale of business behaviour and business decisions, but rather the test of their*

*validity."*

But it follows, secondly, that business well done requires the nurturing of customer relationships and providing a consistent, high quality service. This, in turn, depends on engaged employees, who are respected as ‘ends’ and not just treated as a ‘means’. And as consciousness of the wider impact of a business on the social and ecological environment grows, good customer relationships and strong employee engagement increasingly depend on perceptions of the contribution a business makes to society and to the environment as a whole.

Third, therefore, any business which values its brand and understands the importance of reputation knows that the way in which it engages with the communities in which it operates is absolutely critical. Ultimately, it is about answering the question, how does the business we do contribute profitably and sustainably to the common good?

In too many cases, companies have failed to answer this question properly, because they have

**sustainable  
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compartmentalised their thinking on sustainability and CSR in a 'do-good' box away from the mainstream business.

The answer to the question is not something which you can neatly package and then just walk away. It runs much deeper than this, and it touches every part of the company, and every business practice.

Furthermore, it is no longer some optional extra. In a post-crisis world in which public trust in business is arguably at an all-time low, and scrutiny from the media and politicians is greater than ever, it has never been more important.

Boards and senior managers first need to be clear on their company's contribution to the common good themselves. They then need to be able to explain it in an inspirational way to their own people, if they are to bring the vision to life in their organisation. And this all brings me to my final theme:

**Delivering good value is also, critically, dependent upon each of us as individuals.**

I want to focus first on the role of leadership in business.

One of the outstanding leaders of HSBC's early days – Charles Addis – wrote in a letter over a hundred years ago that “the ultimate basis for all economic conceptions is ethical”. He was right. Much has changed since his day. The importance of values hasn't.

Leaders in the banking sector, perhaps more than most, need to demonstrate that they recognise the moral dimension of what was happening in the years leading up to the financial crisis. This was not just a failure of prudential oversight, or of risk management, or of scenario planning, or indeed of common sense – although it certainly was all of those things.

Of course, we cannot address the subject of morality in business with a rule book or a tick-box mentality. There are no easy answers and there is no 'one size fits all' approach. Yet what is striking is just how widespread a consensus there is about what constitutes ethical business. We should not forget that, at its simplest level, it is about integrity: doing business with trust and honesty, and treating people as ends, not just means.

It is, if you will, a question of developing, sharing and nurturing a set of clear, common

values which the company can make credible claim to. It is not just a matter for strap lines and sales manuals. It should be a central task of the organisation to help employees understand how they can make a contribution, and to provide them with the support and opportunity to make a difference. In this way the organisation is no longer simply a collection of employees, it becomes a collective of citizens.

My experience is that the vast majority of my colleagues want to have a sense that they are making a contribution to society through the work they do and the business they are in. Moreover, anyone who has seen the way in which community involvement exhilarates colleagues in the workplace cannot fail to recognise the impact that this has on their performance. Nothing better illustrates the importance of a holistic approach to the well-being – and therefore effectiveness – of people at work.

Nurturing a company's ethics and values, and engaging everyone in this journey can never be an exact science. But it is one of the most important tasks for any board member, as part of their duties of good governance. Indeed, it should be the subject of explicit and regular board discussion in any company.

In closing, I want to return to the G20 leaders' statement with which I started. Now, more than ever, we need open markets, effective regulation, and strong institutions.

The establishment of the G20 as the world's discussion forum for international economic affairs represents real progress. We shall need strong leadership, with clear accountability in the years ahead, just as much as at the height of the crisis.

There is much that organisations like APEC can add to this process, with its unwavering commitment to free trade and relentless focus on building a sustainable business environment.

But this cannot only be a task for international organisations, vital as they are. We, business leaders, also need to seize the opportunity for change. Financial markets have a special role to play, and a special responsibility to meet, as we seek to apply the lessons learned from the crisis. As we restore values to the way we behave, we shall find that this is the best way to create good value, not just for today, but for future generations.

**nurturing a set of clear, common values**

We now have an opportunity, and a responsibility to place sustainability at the heart of our business models, so that we work for real, long-term value rather than short-term gains that prove – as we have found out – to be not just illusory but hugely costly in human terms.

As individuals, the vast majority of us know that

we want to work for something more than making as much money as quickly as possible, regardless of the longer-term consequences. We also have the opportunity to inspire others to do the same. In short, it is time to recognise that values matter, in business as much as in our personal lives.

**CHECK AGAINST DELIVERY**