Leading with Integrity: Engaging Hearts as well as Minds

The Tomorrow’s Value Lecture Series

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The Hong Kong and Shanghai Banking Corporation was founded by Thomas Sutherland in 1865 in Hong Kong and Shanghai, where we were headquartered for...
…121 of the first 125 years of our history. I say for 121 of the first 125 because for four of those years business was somewhat disrupted…

At 0800 on December 8th 1941, hours after the attack on Pearl Harbour, the Japanese Imperial army began their attack on the relatively lightly defended island of Hong Kong. On December 25th, after three weeks of fierce fighting, the surviving British and Allied forces surrendered, leaving Hong Kong under Imperial Japanese occupation.

The Chief Manager of HSBC since 1930 had been this man; Vandeleur Grayburn. In the months leading up to the invasion of Hong Kong, he had taken actions to evacuate people and money to
safer territories, but he chose not to leave himself. Knowing the risks, he opted to remain in Hong Kong under Japanese occupation. Throughout the occupation, he set up secret lines of credit enabling food and medicines to reach those desperately in need. Under armed custody he smuggled telegrams out of the occupied territory as he attempted to keep London informed. I will read to you from one of the actual telegrams:

“...Staff safe except Fielden, Bompas, Matthews, Wylie killed in action. L/O already advised. Advise Morse, my opinion is losses will be heavy therefore suggest withhold any dividends until peace (stop) Are now compelled under threats to sign uncovered notes (stop) To alleviate British and friendly nationals we are selling surreptitiously by rupee and sterling drafts on letter paper dated 23rd Dec 1941 (stop) These have approval Girnson Colonial Secretary (stop) Please arrange with exchange controls pay if presented (stop) Staff requests make every endeavour repatriate self as only person who can clarify present situation (message ends) Please reply.”

Vandeleur Grayburn’s activities were discovered by the Japanese; he was interrogated, tried and imprisoned. In the terrible conditions of imprisonment, he grew ill. Within a year of writing that telegram, Vandeleur Grayburn was dead.

His decision to remain in Hong Kong was a decision of great courage and great integrity. There was no corporate manual or code that
could have guided him to make that decision. It was a decision of loyalty, of love. A decision from the heart.

(Pause)

How, as a community of business leaders, have we evolved from a world where there is evidence of such principled and distinguished behaviour, to a world where business is so mistrusted?

…where we don’t have to look far for evidence of greedy behaviours…
…questionable judgement…

…unsustainable activity…

…or unethical behaviours. And as such, I believe that we are now caught in a vicious circle of mistrust:
And for reasons that can be understood, it starts from the assumption that business in general lacks integrity.

Sometimes there is a belief that business in general, and Banking in particular is only about profit and lacks integrity. Business is portrayed as pursuing its own interests – not on the customers’ side. As a result, some people think that business should not be trusted.
So, some people say, it is obvious that consumers need to be protected from businesses that cannot be trusted to act in their best interests…

... and in order to protect them, we need rules and regulations...

...like Basel II to make sure that business does not go too far

...after Basel II, surely we get…
…Basel III. And what will we have after Basel III I wonder?

(Pause)

And so it goes on. With many believing that business is bad and cannot be trusted, coupled with the sense that all customers are vulnerable and need help, leading to the creation of more and more rules.
Furthermore, recent events in the financial markets...

...have led to an increasing pressure for change. The internet...

...has accelerated....
...and amplified everything...

...the media fuelling a sense of dissatisfaction with the status quo...

...which in turn makes it harder for everyone...to see the wood...

...from the trees...
First we had Politicians blaming the banks for the financial crisis and the resulting impact on the economy...

Then the media maintained a sustained campaign against the UK Banking sector...
Next, the media attacked the Politicians over the MP’s expenses issue….

...then the Politicians attacked the media over the Phone Hacking scandal…

Then the Police made some arrests over phone hacking…
…the Media then attack the police over their handling of the riots…

…As do the Politicians…

And the net result is…

A sustained erosion of trust, increasing finger pointing and blaming, a cry for authoritarian actions and punishments for the guilty…
….which all spins the vicious circle of mistrust faster and faster, further eroding confidence in business, making customers more and more sceptical of financial products - like savings and investments - that they so desperately need, sending the regulators into activity as they attempt to catch the guilty parties and punish them, whilst those who should be working collaboratively go against each other…further fuelling cynicism and distrust and yet what we all most desperately need to do is just stop....

(Pause)

…and think.
The world is the product of our thinking, and if we want things to be better than they are today, we first need to change the way we are thinking. Not just within the Financial Services sector, but broadly across business, regulator, politics and media too. I view this as a leadership challenge. The role of a leader is to set the direction but also the tonality. To create what Field Marshal Montgomery described as “the atmosphere”. I think that perhaps we all need to accept that we have been getting some things wrong, and if we are to change the outcomes we need to change our approach.

I have worked in financial services for seven years, and I am yet to meet someone who is trying to do the wrong thing. And yet if the wrong things are happening, then the way we are deciding what is right – must be wrong.
So what do we need to change? Well, maybe let’s look again at this circle of mistrust…

First, how much help do consumers really need?

In October 2007, the BBC ran a story under a headline of “Boy, three, buys car on internet”. It explains that while his parents were out of
the room, he clicked on a brand new Nissan Figaro and bought it for £9,000. With wonderful British euphemism, his mother, Rachael Neal, 36 said her son was ‘quite good’ at using the computer.

Whilst absolutely some people need protecting, my feeling is that most adult consumers are actually pretty capable today. I am not suggesting that consumer protection should be reduced – far from it. Just that we should treat customers as responsible adults who are capable of making informed choices in their lives.

Second, how effective are the rules? We do need rules. Rules have some major advantages…
…They provide valuable shorthand for acceptable behaviour. A speed camera also says “drive carefully – accident black spot”.

Rules also help protect us from the small percentage of society who genuinely cannot be trusted.

However, a reliance on rules alone brings dangers. Rules can make the world very complicated. Alan Greenspan once described Sarbannes-Oxley; a set of rules designed to prevent the recurrence of an “Enron” as…

…”a nightmare”¹ as a result of the complexity it created. Increasing complexity is an important downside of the increasing regulation. But perhaps the darker side of rule compliance is that rules give people the false sense of security that if they follow the rules, they will be safe. This was proven in the famous experiment of Stanley Milgram in 1963…

¹ http://www.infoworld.com/t/business/greenspan-calls-sarbox-nightmare-312
…who took a random sample of people and pretended they were taking part in medical research. In his experiment, he proved that two thirds of people would administer a lethal electric shock when told to do so by a figure of authority.

And so I fear that a reliance on increasing rule based regulation could actually lead to a false sense of security…after all, very few rules were actually broken in the creation of the Financial Crisis, certainly, rules alone are not enough…

As the late Sir Derek Higgs wrote in his report on Corporate Governance “it doesn’t matter how wonderful your corporate governance processes, if you cannot trust your people then you are at risk”. No rulebook can tell someone how to live their life.
And so finally, what about that central assumption that business itself lacks integrity?

Is that true? Does Business lack Integrity? Well, what actually is a business? What actually is a Bank?

(Pause)

If you ask a seven year old “What is a Bank?” they are likely to answer….

..that a Bank is a building with a safe in it. And I agree. A Bank is just a building. But, what we really are, like any business, is a human
community of people who come together around a shared purpose. A bank is a web of human relationships between employees and customers, and it is from our customer’s loyalty that we are able to derive a profit. That web extends to include shareholders, pensioners, the communities in which we operate, regulators and even activists.

And if a Business is a community of people, what does integrity mean?

I don’t see Integrity itself as a value but rather the sum of all your values. Like “integration” or “system integrity” it is how it all fits together. Acting with integrity is acting consistently with all of your values. The opposite, ‘hypocrisy’ is to say one thing and do something different.
The advantage of integrity is that it has no need of rules. Acting with integrity means acting with hope, fairness, courage, kindness…being guided not just by rules, or popularity, but by principles and values. It is – ironically – these very values that actually do underpin the workings of the business world…

…Can a business or market grow integrity? I believe so. From 1994 to 2000 I lived in Bucharest, Romania, and during that time it was not a great place to get a taxi. Not that there weren’t any taxis – there were thousands. But because, when you got in one, the meter would run at a random speed (if at all) and then at the end of the journey you would have to negotiate, sometimes violently, with the driver to agree on the fare.

Then, one day, one taxi company started to charge based only on a fair and honest meter reading – it attracted so much business that it caused all other taxi companies to start operating in the same way. As such, Bucharest became one of the best places in the world to
take a taxi. There was no regulatory change. There was no enforcement action. And yet the market grew integrity.

Like the Bucharest taxi, the entire global Financial System is based on...Trust

When we accept money we trust it has value. When we put money in a bank, we trust we will get it back. And when we, the bank, lend money, we are trusting that we will get it back. The word credit comes from the Latin word “Credere” – to trust or believe.

Take a £20 note...it is amazingly intricate. It contains watermarks, fluorescence and silver foil. But it costs about 3 and a half pence to
manufacture. The reason we accept it as being worth 20 pounds is because of a little line of text on the front which reads: "I promise to pay the bearer on demand the sum of twenty pounds". Because we trust this promise, we have a currency. Bank notes work because we believe that they hold value....in fact the entire financial system is based on trust.

But trust is not the only principle, we also need to act with Fairness, and I personally think that the work that the FSA started around the principle of Treating Customers Fairly was the best Regulatory initiative in years....

Firms do need to embrace a culture of treating customers fairly, and in return customers will reward them with their loyalty which leads to sustainable, profitable growth.

Then there are the more familiar values of business. About being strong, committed, tenacious, determined, persistent...
…And these are all vitally important too. But there is one more value that needs to live in a healthy business if it is to deliver truly outstanding customer service. And although I work for a Bank, HSBC is widely credited with offering good customer service, and a recent Which? report placed HSBC top among the high street Banks. Not only this, HSBC in the UK operates first direct, Marks and Spencer Money and the John Lewis Partnership Card…all leading service brands.

I believe that the secret to customer care is exactly that – care. And there is a word we all use to describe that value in our personal lives. A word which embodies how we relate to our families, but somehow rarely gets past security on the threshold of the corporate headquarters. That word, of course, is…

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2 http://www.which.co.uk/news/2010/08/big-banks-fail-customer-service-test-225591/
Love. Is love a value that can exist in the work place? Our employee surveys consistently show that “I feel valued” is one key driver of employee engagement, and as a previous Chairman of John Lewis once said, “to be our customers’ favourite retailer, we have to first be our staffs”. We constantly observe very closely the correlation between first direct’s customer satisfaction and profitability over time.

I doubt I could prove it, but I work on the assumption that improving customer service, in time, improves profitability. It is my firm belief that by making business decisions that are guided by principles such as trust, care, fairness as well as strength, courage and determination we create a truly sustainable financial performance. Here is…
…a chart showing the financial performance of HSBC in the UK – the part that I manage – before, during and after the financial crisis. As you can see, we have remained strongly profitable throughout – reaching a low point of reporting £322 million profit in the second half of 2009 and rebuilding to near pre-crisis levels despite base rates remaining close to zero – significantly suppressing our earnings potential. Through this period we have not taken a penny of tax payer money here or elsewhere around the world, we have maintained the highest dividend in the category and remained a Top 10 UK taxpayer.

And here is our employee engagement over the same period…..

http://www.hsbc.com/1/content/assets/investor_relations/110906_hsbc_uk_2011_interim_results_presentation.pdf
…Our current level of 72% is, according to the agency that conducts the research, among the best in class.

I believe that the key to running a long term sustainable and successful company is neither a relentless focus on the bottom line, nor an unbridled care for the employee, nor a blind adherence to the letter of the law. Rather the most successful businesses understand the key populations that they serve – their shareholders, customers and employees. They make principled decisions that reflect and balance the sometimes conflicting needs of these different groups. And they understand their duties in the context of the broader society and communities which they exist to serve.

So if we do agree that making principled decisions is the right pathway to sustainable growth, why does it not happen more often in corporate life? If it is that simple, why doesn’t it happen more often? I think that there are three main influences that can distort behaviour in the work place and result in poor decisions.

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4 Good Practice Guide on Ethics in Decision Making, The Institute of Business Ethics, June 2011
This chart from the *Good Practice Guide on Ethics in Decision Making* shows the top reasons why people in a large survey claimed that they might not make ethical decisions. The number one reason is ‘Pressure to meet unrealistic business objectives/deadlines’. But when you dig behind each of the answers, they really boil down to these core three:

First, incentive schemes can encourage people to make decisions that they might not otherwise make. Personal gain is a powerful motivator, and we cannot blame people for thinking about their own interests. But I do think that we all have a duty to ensure that incentivisation does not create destructive behaviours. In HSBC’s UK Retail bank, on average, variable pay makes up to around 14% of total pay – which I believe to be an acceptable level. It is also distributed against a balanced scorecard and pays as much attention to “how” results have been achieved, as to “what” has been done.
Second, if old fashioned greed remains a danger, so does its good friend fear. As soon as fear is created within an organisation – be it fear of a superior, fear of failure or even fear of a regulator; ancient survival mechanisms are triggered and people very quickly put their personal interests ahead of those of the organisation.

Third, there is a risk in Corporations of Arrogance…

…the belief that one is somehow above the rules, better than the next guy or immune to the workings of the market. Sometimes as people in corporations are driven by their own progression up the greasy pole, they may temporarily be blinded by their own position, rather than seeing the greater good.
When greed, fear and arrogance come in to play people often stop acting with integrity, but rather out of self interest. It is my view that the negative influences of greed, fear and arrogance are responsible for most of the corporate failures and scandals in history.

So, how do we stop them getting in the way? The part of HSBC that I manage has 40,000 employees across over 1,300 different locations in the UK alone. How to create a truly values led high performing organisation across such a large and disparate organisation, under such sustained external criticism? How to create an environment where people feel comfortable to make truly principle based decisions?

......it is simple but not easy.

Well, I think that we have discovered – or rediscovered a way that we might be able to make some progress. I’d like to tell you a story about my team.

It is a new team of talented individuals, but we need to blend rapidly in to a team. So, to start things off, we decided to spend the day
together – not reviewing strategy – but getting to know each other. At
the time, the new Kevin McDonald film – “Life in a Day” had just been
released. The film consists of many short films, recruited via
YouTube along the theme of “what you love, what you fear, and what
you have got in your pocket”. We took this idea, and throughout the
day each of us came prepared to speak about what we love, what we
fear and what we had in our pocket.

Three things from the day greatly surprised us. First, how emotional
it was at the time. It was a hugely engaging session as everyone
talked of their loved ones, family, illness, death and tragedy. Second,
how strongly the experience has stayed with us since. We have all
been to many offsites over the years and typically only remember the
venue where it was held. This one had a saliency that has remained
with us as an experience, not just a meeting.

But perhaps most usefully, without planning to, we reached a
conclusion during that offsite that has guided us since. It was clear to
all of us that the biggest challenges that we all face through our lives;
we face in our personal lives. The biggest challenges we face involve
our families and friends, and we cope with these challenges as capable adult human beings, using our whole human potential.

If we are able to cope with these challenges in our personal lives, we are able to cope with anything that the business world can throw at us...just so long as we continue to function as the fully formed adult human beings that we are.

The biggest risk that I take in my own life is probably driving my wife and son in the car. But I don’t ask the Chief Risk Officer to come with me on family trips. In our personal lives we are quite capable of voting, having children, buying a house. And yet in the office we can easily create an environment where you need your manager’s signature for expensing a cup of coffee.

Why is this? Because it is all too easy to create an environment at work where personal interest, fear and competition can distort otherwise healthy human behaviours. When this happens, outcomes for both customers and shareholders will deteriorate over time. By contrast we aim to create an environment at HSBC where people can
apply their full human potential, or as we say “bring your whole self to work”.

We ask people to be people first and bankers second. Plus, think of the potential for business performance if every one of our employees were to put the same energy and commitment into their work lives, that they put into their personal lives? How much more can be achieved when a single individual puts their heart into a task?

Globally HSBC has recently restated its corporate values with the simple statement of living and leading with courageous integrity. Underneath, this is defined by the specific principles and behaviours of Open, Connected and Dependable. This applies to every HSBC division in every country around the world. If integrity means living your values, courageous integrity means living your values when the pressure is on.

It means not lending unprofitable mortgages in 2006 in the UK. It means stopping selling PPI two years before the market. It means not taking taxpayer money. It means sometimes not doing the
popular thing. Like not making loans – even to SMEs – if we are not confident that the customer can pay us back – even if there is political pressure to do so. It means making people redundant if it is necessary for the sustainability of the business. And it means putting our hands up and taking the flak when we get things wrong – and we will still get things wrong – and taking the consequences on the chin.

But courageous integrity gives us a platform globally that we – and others – can judge us by. It is a statement that we want to be a principle led company, and what is more than that – we believe that principle led decisions will lead to higher business performance and shareholder return in the long run.

When Peter Loescher took over at Siemens after the bribery issues, he made a statement that he expects “highest performance with the highest ethics” – there is no trade off.

And values based leadership is both measureable and actionable at the quantitative level. On screen is the ethical profile of our organisation using a tool developed by Roger Steare. It is a simple
tool that plots values versus the norm. It says that our people are very strong on values like courage, honesty, fairness and wisdom, but could be better on self-control, humility and love.

For business to be trusted, it will need all of us to act with integrity. It will require a productive stance from the multiple stakeholders who are mutually involved in the process of the creation of trust.

I have talked about it in the context of banking, and it is my belief that we can move from being less of an industry, to becoming more of a profession.

Truly expert in capability and orientated around the customers needs. But the Regulatory environment needs to change too…

I talked earlier about the risk that fear drives people to make sub-optimal decisions. In my view, by and large, we do not need “tougher regulation” – or a more extreme focus on compliance with the rules.
We do not need “tougher regulation”, we need better regulation, with a focus on supervision, over-sight and guidance according to adult principles. Less regulation, more supervision.

Looking at the political environment, there have been many political points scored by taking positions by criticising others. Is it in the best interests of the UK, or voters, to run down the financial sector that makes up a large proportion of the British economy? Plus, in the words of a Brazilian who once worked for me, “when you point the finger, there are three pointing back at you”. Perhaps we need less politics, and more statesmanlike leadership.
In a world where customers have so much power and control, what are the adult responsibilities that come with it? Whatever our particular leaning, we will agree that there is a line where a businesses responsibility ends, and a customer’s begins. While we may argue about exactly where that line is drawn, surely the more responsibility that customers take, the better for everyone? Perhaps we need fewer consumers, and more customers.

Finally, I understand and respect that the media have a duty to report the truth. However, I might suggest that in some quarters we ask where the line between entertainment, and news, is drawn. In my personal view, a responsible approach to media considers the implications of what is published, as well as what is published. Even if that means less entertainment and more information.
But over and above everything, we all need to ask not only what is the profitable thing to do, not only what brings most benefit to the most people, but are we living by our principles? Principles like hope, trust, fairness, loyalty, kindness and honesty. Exactly as we do in our personal lives.

**Leading with Integrity**

*Bringing your whole human capability to work*

Is this an idealistic approach? Probably. But I believe in striving for ideals. And we all face a choice. The choice to act in a morally immature way, looking for blame and trying to punish.
Or we can act as responsible adults. Regardless of our sector or job but rather in our role as human beings, to examine our principles and be guided by the right thing to do. If, we in business make principled decisions, this will in time lead to loyal customers, overseen by a wise regulatory framework. If we all stick to our principles, over time I believe that we can reverse the vicious circle of cynicism, and create a virtuous circle of trust.

Does this require a leap of faith? Absolutely. A leap of faith is exactly what is required. Because a leap of faith is the only way that trust can be created, as Henry Stimson said, “*the only way to make a man trustworthy is to trust him*”

In preparing for a recent presentation, I became curious about how any man could make such a decision, knowing that they could be laying down their life for the good of their employer. When did he decide? Was he married? And if so, at what point did he send his wife safely back home to England?
I will read you the reply to that question from our Group Archivist…

“He didn’t. Grayburn and his wife, Mary, were initially held in the Sun Wah Hotel with other bank men and their families. The men were marched back to the bank in the mornings to assist in the liquidation of HSBC. In the summer of 1943 V deleur was imprisoned for his part in secretly smuggling funds in to the internees at nearby Stanley Camp. He fell ill in prison but did not receive the medical attention he required, and died on 21 August 1943. Mary saw out the rest of the war in Stanley Camp. There she took on the care of one of the bank children, Michael Hyde, who was left an orphan, aged 5 when his mother died in camp and his father was executed. After the war she returned to England with Michael, with whom she then brought up.”

Humanity has a remarkable capability. We need only to release it.

Thank You