Social Responsibility and Banking
- Responding to the New Realities

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Leon Davis
Chairman
Westpac Banking Corporation
INTRODUCTION

I’m a proud Australian who loves France and Paris in particular. So it is a real pleasure to be here today, and to consider issues of relevance to the business communities of our two countries and in Europe more generally.

You know, Australia could have been French. It was a close run thing, to use a phrase from another time and another place. French explorers like Bougainville, La Pérouse, d’Entrecasteaux and Baudin conducted important early exploration and research into Australian geography and botany. La Pérouse arrived just five days after Governor Philip on the shores of Botany Bay in 1788. The first printed reference to the term “Australia” was by the French scientist, Labillardière, in 1804. And Mathew Flinder’s celebrated maps of Australia relied in part on earlier French maps confiscated by the British.

Most astounding of all, perhaps, the young Napoleon Bonaparte applied to join La Pérouse’s ill-fated expedition and was refused. It’s hard to believe the future conqueror of Europe could have resisted the chance to attempt settlement in Australia. It’s also hard to imagine that he might have died in the South Pacific, together with La Pérouse, thus changing the course of European history.

In the end of course, Australia became part of the British Empire. And until not so long ago, it was commonplace for Australians to blame our poky urban architecture, stodgy food and anti-woman “pub” culture on our British inheritance. If we had only been French, went the lament, things could have been very different… and so very much better.

Globalisation changed all that. And along with the breaking down of cultural barriers, globalisation together with privatisation, deregulation, and the information revolution have fundamentally redefined what communities expect of corporations. Added to this the opening up of public companies and the explosion of communication media is rapidly turning up the heat.

This is no more evident than in the banking industry and I thought that today I should share with you my thoughts about changed community expectations for banks, as well as corporations more generally. And to share with you what I think it means to be a socially responsible company and why this is fundamentally linked to sustainable shareholder value and the building of social capital in our communities.

Let me start with a few remarks about globalisation.

GLOBALISATION

There are those who denigrate globalisation, but not me. The free market, immigration and globalisation with the benefit of may Australians working overseas have been good for Australia. The flow of people, capital, goods and services, information and ideas from all around the world, including France, has made Australia a better society with a strong economy. Australia is now open, sophisticated and cosmopolitan.

Since the 1980s, Australian policy responses to the opportunities of globalisation have included removal of tariff barriers, selling of state owned enterprises, floating the
Australian dollar and labour market deregulation. Because of this, the Australian economy has one of the highest growth rates in the developed world.

While France has long been a great global nation, the French, it seems to me, have taken a more cautious approach to the idea of globalisation, perhaps suspecting that France had more to give than to gain. But all the reports I read suggest that the mood here is generally more outward looking although some of the recent debate on migration policy looks like a step backward.

From the World Cup to haute couture, a willingness to embrace the best from around the world has not diminished what is unique to France, only enhanced it.

In fact, it always seems to me that France, like Australia, is at its best when pushing the boundaries of the modern.

THE NEW REALITY

Which brings me to the new realities we face as business people in this globalised and interdependent world. And transitions I believe we all need to make.

We live in a pluralist society. Where power once resided largely in central governments, today it is widely dispersed through business and non-government organisations as well as governments. In this new era, interest groups, via the Internet among other things, have a vastly strengthened capacity to mobilise community opinion.

More relevant to us, the economic power of businesses now vastly exceeds that of governments, and they have great freedom to operate and succeed in their home countries and around the world.

But herein lies a challenge. In a pluralist society, it is in the direct and vital interests of all institutions, including business, to give back -- to ensure the maintenance of a stable, cohesive community. To achieve this, leaders of all institutions will have to become leaders “beyond the walls”.

What’s more, I think a lot of the anti-globalisation demonstrations of the past few years were community expressions of that same view: the belief that leaders in business, international institutions and other important bodies have responsibilities which extend beyond the borders of their organisations. And let us remember that many of these demonstrators – certainly in Australia, were not the fringe dwellers but more the middle classes.

We all know that a business needs a license to operate - tangible evidence of its legitimacy. But equally important is a company’s social license to operate; that intangible community support or “social legitimacy”. For firms to retain their social legitimacy, they must be perceived by their communities to be using their increased power responsibly.

And we now know that communities can and will punish organisations that fail to act responsibly. The punishment can come in various forms. It might be via a consumer boycott. It might be via legal action through the courts. Or it might be via new regulations or restrictions initiated by Parliaments, local councils or, increasingly, the
regulators. These are the tools that modern communities use to restrain those corporations perceived to be irresponsible.

These are the new realities faced by business. If any company thinks they are immune they need to think again. Regulations are like blankets – they cover the good and the bad. The transition to a culture of corporate social responsibility is inevitable, and it's underway. Those corporations that fail to adapt will also fail to succeed.

And those corporations that embrace this new era will be rewarded by their employees, customers and investors. Indeed, it’s already happening.

I should clarify here that by advocating corporate social responsibility I certainly do not endorse business trying to substitute for government. Government’s job is the redistribution of wealth – and businesses can never do that. But business can and must show leadership beyond the walls, finding ways to create and sustain the community that, in return, sustains the economy.

THE BUSINESS CASE FOR SOCIAL RESPONSIBILITY

So far I have talked about the broader social reasons for corporate social responsibility. Let me turn now to the level of the company and the specific business case for social responsibility. There are some that say that business involvement in community and social matters detracts from the main aim of creating shareholder value. I think the opposite. I believe that it builds shareholder value. I have seen it happen with Rio Tinto and with Westpac.

Businesses that enter into partnerships with the community, and do so with conviction and professionalism, are seen as modern and responsive. Brands are enhanced, regulatory risks are lowered and costs are often reduced.

But the most important benefit to the corporation relates to its people. The best people – the ones who you want to attract to your organisation – are the people who like to feel proud going to work every day.

STATE OF PLAY IN THE BANKING SECTOR

Banks in Australia, as in most developed countries, have suffered badly in reputational terms over recent years. There is a perception, particularly among regional Australians, that banks don’t want their business or, at the very least, take them for granted. Branch closures in regional Australia remain a sensitive issue. And of course, the people who suffer most from this negative feedback are the front-line bank staff who deal with customers.

Despite the obvious public disquiet, and even hostility, with the behaviour of banks, you will still find senior people in this industry who quietly believe that short-term shareholder value is all that counts. And in some areas, attention paid to the challenge of corporate social responsibility is done reluctantly, inadequately and without the conviction required to make any real difference to corporate culture or behaviour.
But the pressure on corporations to accept a broader set of responsibilities will only magnify. Just get on the web one day and look at who is saying what about your company. And whether you are high street bank or a modern financial conglomerate with millions of customers, you can bet that there are plenty that want to have their say.

Despite not heeding the messages well for a long time, at Westpac we eventually signaled our willingness to respond to customer sentiment. In rural areas, where a traditional branch is no longer viable, our corrective is to now establish a community-based branch within an existing business or government premises. We also introduced essential fee free banking to pensioners, the disabled, students, young people and people on welfare.

Widespread pressures for social re-regulation of the banking industry can be seen in all developed countries. Public policy concerns relating to competition and efficiency, for example, have put credit card reforms on the agenda in Europe as well as in Australia.

And we are seeing growing public policy concerns in relation to so called ‘financial exclusion’. Concerns centre on those sections of the community that cannot fully participate in the financial system due to education, affordability or access issues.

In fact, the inability of the banking industry to win back public support and acceptance of their actions has been the real block in both Australia and Canada to attempts by major banks to merge.

Added to this is the growing Socially Responsible Investments or SRI phenomenon. In many ways SRI funds are still in their infancy in Australia and Europe and the selection process fairly rudimentary. But the growth rate is impressive and will accelerate further as the social agenda increasingly impacts on investment decisions.

Following new legislated disclosure requirements in the UK, some 80% of pension fund managers there now incorporate social and environmental criteria into their valuation screens. And Australia is hot on their heels and making it easier with broader disclosure requirements now in place. But the country furtherest down this track is here, in France.

But mandatory sustainability reporting for French corporations passed by the French Parliament in 2001, marks one of the most significant developments to date, worldwide.

This law requires all French corporations listed on the “premier marché (with the largest market capitalisations) to report annually against a template of social and environmental indicators starting with the 2002 financial year.

My guess is that in ten years we will all look back with wonder that ANY company in ANY industry could contemplate neglecting its corporate social responsibilities and need to self regulate its activities. And how do corporations formulate their social agenda? One way is via a partnership approach.

THE PARTNERSHIP APPROACH

The fact is the value of a corporation is not the same as its profitability, or more correctly its book value. Intangibles generally account for around 70% of value and while these
intangibles generally relate to future earnings and grow, these cannot be divorced from a company's social role and impact.

That’s why at Westpac we believe that it is only by responding to the legitimate interests of all stakeholders that we can sustainably enhance shareholder value and reinforce the promise of sustainable growth. But I also want to emphasise that we do not believe that corporate social responsibility overrides the fundamental obligation of companies to make returns for investors – rather it’s a matter of balance. What is required is a cohesive strategy to deliver on financial objectives while meeting fundamental social responsibilities.

For us it starts with business basics and dealing with the substantive issues around: handling customer complaints; improving service standards; transparently, and simply setting out our policies and practices so we can be judged on them; and finding correctives for broad based community concerns. At the same time we have been a leader in introducing SRI funds.

And more and more, our staff are playing a key role in rebuilding our links to the community. Not as passive supporters, but as active participants.

These efforts have seen us ranked in the top three banks worldwide in the Dow Jones Sustainability Index on social and environmental performance and rated as the top private sector company in Australia in the Good Reputation Index.

But it is also becoming clear that companies can’t do it alone. Partnerships are the way of the future, providing powerful vehicles for achievement. A community partnership exists when a business and a community organisation come together to create positive long-term outcomes for the environment or community as well as the corporation.

At Westpac, for example, we’ve built close partnerships with a range of leading social groups. We are also partnering directly with the indigenous communities, including in Cape York in far northern Australia to help them to gain greater economic independence and sustainability for their communities.

These new partnerships are also enriching the way we approach our long-standing philanthropic activities. All of these relationships have progressively changed from hands-off charitable activities to close partnerships with strong mutual benefits.

I know from experience, in two major industry sectors, that corporate partnerships for social responsibility create wins all round. But let me repeat, and stress, that real success comes from rigorous management, just as it does in any other part of the business.

Corporate responsibility programs must be part of a fundamental shift in business culture, not a neat add-on nor solely for its feel good factor. Top level management must take direct responsibility for the overall strategy and success of the programs. And I would add that effective community partnerships often have more to do about people and skills than the financial support itself.
CONCLUSION: THE BIG PICTURE

Let me conclude. No man – and no corporation - is an island. We draw strength from the communities in which we live and work. Our individual and business success is bound to the health and well being of our communities. Business cannot and should never attempt to replace the role of governments. But in a dynamic, diverse and pluralist world, those of us who lead corporations can make a big difference to the communities in which we find ourselves. And in the process we will meet community expectations and deliver stronger returns, sustainably, to all our stakeholders.

It’s probably worth acknowledging that there’s still a fair amount of community cynicism about the idea of corporate social responsibility. And this shouldn’t surprise us, given that too many companies still pursue business practices that are arguably irresponsible on social, financial or environmental grounds.

The Enron disaster has most recently added fuel to community skepticism about the morality of large corporations, and is there any wonder this skepticism will be reflected in a tightened regulatory environment for a whole range of companies. It’s a reminder to all of the potentially negative consequences for all companies when any company breaches acceptable standards of behaviour.

Today, most of us recognise we can no longer separate our economic or financial interests from our social responsibilities. Investing in social capital does not require a trade-off in competitiveness. To the contrary.

A society based on inclusion, stability and cohesion provides the fertile basis for a successful economy and successful corporations. It is not only our responsibility to contribute to our communities, to offer “leadership beyond the walls” but in our clear interests as well.