Managing for the Future: Ensuring Sustainable
Business and Social Outcomes

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INTRODUCTION
This is an important time in Australia. Our nation is playing its part in the war on terrorism. We are in the midst of a Federal election campaign. So this is a time for us all to focus on what values we are prepared to defend -- and what kind of society we want to create.

I think that no group knows better than the Jewish community that our way of life is not something we can take for granted. We all have a part to play in sustaining a free, open and tolerant Australia. At the core is the task of ensuring that every individual in our country feels that they have a place; trusts that they will get their fair share; and believes that their endeavours will reap rewards. This sense of trust and hope contributes to a strong society. And to strong and sustainable businesses within it.

So today I want to talk about ensuring sustainable business and social outcomes for Australia, and in particular I want to focus on the role business has to play. For make no mistake, business has a role to play.

Let me start with the unexceptional remark that the worth of every company and its principal responsibility to the community cannot be separated from financial performance.

Our financial results constitute reality. They are the reality our business. And normally I would spend considerable time explaining our progress. But given we are only about a week away from our profit announcement, I am sure you will forgive me on this occasion for concentrating on the critical role of business beyond the financial dimension.

Consider Westpac Bank. We have been part of Australian life since 1817. We are one of the nation’s oldest institutions – not simply its first bank but also its first company - with a strong sense of our corporate history and our responsibility to national development. With around 30,000 Australians employed by us, some 5.5 million Australians choosing to do business with us, and millions of direct and indirect shareholders, we are not only pervasive in Australian life, we also represent a microcosm of the Australian nation itself. Our staff and our customers reflect all ethnic groups, a rainbow of values and beliefs, a spectrum of political persuasions. So we’ve always had an important role in Australian national life. Today this is more apparent than ever before.

LEADERS BEYOND THE WALLS

Power used to reside largely in central governments. Now it is widely dispersed through business and non-government organisations as well as governments. We live in a pluralist society. At a time when terrorists want to maim and curtail our sense of freedom, this pluralism is and should be a matter of rejoicing. But the price of pluralism means greater responsibility by business. Today most of us recognise we can no longer separate our economic or financial interests from social responsibilities.
Let me draw on some remarks made by eminent business thinker Peter Drucker in 1999. He succinctly summed up the challenge. He said: “all earlier pluralist societies destroyed themselves because no one took care of the common good. If our modern pluralist society is to escape the same fate, the leaders of all institutions will have to learn to be leaders beyond the walls…it is not enough for them to lead their own institutions, though that is the first requirement. They will also have to learn to become leaders in the community. In fact, they have to learn to create community.”

That term, leaders beyond the walls, is a powerful one, isn’t it? In this time of great challenge and complexity, it’s a reminder to each and every one of us that we can’t shrink from our wider social responsibilities. This is no time to huddle in a psychological bunker, it’s time to be out there, defending, protecting and promoting the values we cherish, and forging the kind of society we are proud to live in and bequeath to our children.

Think of this. Only, say, ten years ago perhaps, government and business thought that a single-minded pursuit of the economic main game was the responsible thing for businesses to do. By everyone. Most thought that the best way for businesses to contribute to the country was single-mindedly to look after the bottom line. As a student of Milton Friedman in the 1960’s, I was brought up on the belief that looking after the common good was to be the role of governments alone. And that the common good would best be facilitated by non-interventionist policies by government. Corporations didn’t have social responsibilities; governments did.

I no longer believe this.

Stepping outside the walls to build social capital is something I believe all enlightened companies should be doing. It enhances community trust in our companies and institutions and its good for business and good for the overall community.

But here’s the important thing. Investing in social capital does not require a trade-off in competitiveness. On the contrary. Social cohesion is a vital ingredient in a successful society. It could be argued, I think, that until fairly recently, our customers and the community understood this more deeply, more clearly, than perhaps political and certainly business leaders. If social capital and strong economic performance are mutually reinforcing, not mutually exclusive, and I would argue they are, then it’s up to those of us in leadership roles to find ways to achieve both. I think this is the base starting point whether you’re in charge of a bank or a nation.

But that is not by any means to say the task is an easy one. One of the more definitive statements of the new social order comes from the World Bank which states that “social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is the glue that holds it together”. At first glance the World Bank’s view might seem more like a pious hope, than a reality or even a reasonable expectation.
But no government or corporation can any longer fail to recognise the underlying message in the statement. Governments and businesses alike cannot ignore the public’s insistence for a stronger sense of social cohesion.

For those of us in business the task is most vividly understood perhaps as a requirement – as a challenge -- to harness the unstoppable forces which define our modern era – information technology, market liberalisation and globalisation. And to make these tandem forces work to create beneficial sustainable outcomes not just for the favoured few but for whole communities.

**IMPACT OF GLOBALISATION**

I am unequivocally in favour of globalisation. Free trade and open markets are the proven route out of poverty for the world’s poorest peoples. Nowhere is this more evident than in East Asia where trade liberalisation over the past two decades has halved the number of people living in extreme poverty. The new age of information technologies is also empowering – eradicating distance and expanding access and opportunities.

Those who would advocate a negative approach, such as attempts to impose restrictions on trade and capital flows, must be aggressively resisted. Australia needs to be open to the world – and we need to encourage the world to open to us – if we are to prosper and grow.

But that’s also where the game has changed - between the promise and the reality, a great gap has opened up.

This new era has brought tremendous benefits but still left many people feeling more like victims than beneficiaries. In the suburbs and the regions too many people feel excluded. The celebrations of the economic achievements are muted - in some places it is more like a wake for the lost past.

Global and national economies may be prospering, but many feel they are losing control of their own lives.

We are seeing a society that is becoming less paternalistic and more individualistic and this can be a stressful place. Individual good seems to take precedence over the common good. And there’s more change and uncertainty. Jobs are for now, not for life. Most people don’t like the feeling of powerlessness this brings.

What’s more, people are making their feelings known. They are saying: if we must have globalisation, deregulation and a revolution in information and technology, let us have it on a human scale, and let’s have it as far as possible on our terms. They are saying: look at it through our eyes, add empathy to your government and to your corporate strategies. To those of us in leadership roles they are saying – they expect more. They want us to redefine our roles – to develop a new style of leadership that blends compassion with competitiveness.
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The signs are everywhere. People increasingly don’t trust the leviathan of power. They don’t like politicians because power is what politicians deal in. As we now know, of course, major structural reforms do sting and there can be a strong community backlash if the social impacts are not adequately addressed.

And they won’t accept some glib communications spin on their concerns. Naomi Klein, author of the generation-x bible, No Logo, puts it this way: “it’s not a communications problem; it’s a reality problem”.

ROLE OF GOVERNMENT

Already a new political line has been drawn and governments are being forced to intervene in ways which no one at the pointy end of the economic argument in the 1980s could have foreseen or tolerated. New forms of industry policy, guaranteed worker entitlements, provision of services to remote and disadvantaged communities, and demands for education reform are evident. And both sides of politics are seeking new ways of solving the old problems of social inequality while making the new technology and the new economy work for the whole society. The best policies without doubt will be those which tackle adjustment problems without compromising the gains from liberalisation, especially the liberalisation of trade.

But to make this new era work, adjustment problems in particular communities must be the focus of specific policy attention. The more effective policies will tackle the problems of permanent income loss and shorter-term adjustment problems, particularly resulting from the export of lower paid unskilled jobs, without removing the gains from trade. National policies concerning taxes and transfers are also needed to play a crucial redistributive role.

We have great natural endowments –including a stable democracy, strong institutions, wonderful lifestyle, a relatively unique cross-cultural mix, pristine environment, and high enthusiasm for new technologies. The English language is an often under-rated asset. And we have shown the capacity to excel globally-- in wine or film making, in food processing, in biotechnology, in aquaculture, in architecture and engineering services, in boat making, financial services processing, education and so on. But we don’t have scale or big market proximity and we’re under-performing on education and research and development.

There’s another issue too. I spent significant portions of my early career in the public service. It was a worthwhile thing to do and, at the time, highly regarded. But in a pluralist society, talented young people have many alternative, increasingly attractive choices and we are seeing a relative brain drain from the public sector. So we need to find creative ways to ensure that quality and talent continue to circulate through our public sector. Whether it be through widespread participation in the ranks of the public sector by private sector individuals on a fixed term basis, we need our major public institutions to be strong and viable if we are to meet the policy challenges.

PRIVATE SECTOR/BANKS
The task of building social capital poses a major challenge for our governments, but it cannot be successfully met without complementary leadership and action within the corporate sector. Undoubtedly there has been a dramatic increase in the power of large corporations to influence economies and society more generally. At the top end, the largest global corporations are bigger than many national governments and an estimated one third of total global economic exchange occurs within companies.

Those of us in corporate leadership roles need to demonstrate that we will use the unprecedented opportunities presented by globalisation, market liberalisation and new technologies to empower people.

The major banks have a long way to go in regaining people’s trust. There is no point in pretending otherwise -- there is tremendous disillusion and dissatisfaction with the practices of banks.

If we tell people that the fees we charge recoup only around half of our costs on transaction accounts or that we face system problems in moving to real time disclosures will our customers say “silly me” and stop their agitation about fees? Of course not.

The trouble is as leaders we run the risk of sounding as if we imagine we’re the victims - and that’s clearly fatal.

What is needed is both explanations and correctives by companies. An explanation of actions, so that people understand why companies take the decisions they do. But more importantly, correctives to fix any significant problems that exist or may arise.

At Westpac we know the community’s eyes are on us and expecting us to play our part. We accept our responsibility to develop services that will help to overcome the feelings of powerlessness now endemic in parts of Australia.

For example, we’re looking for ways to bridge the gaps between low-income earners and other disadvantaged groups in terms of access to services. That’s why we offer essential fee free banking to pensioners, the disabled, students, young people and people on welfare.

In rural areas, where customers don’t have access to our lower cost ATM transactions in their towns, we price branch transactions at the lower rate.

Again in rural areas, where we find a traditional branch is no longer viable, our corrective is to move to a more cost-efficient and therefore sustainable facility. “In-stores” we call them - located in existing businesses or government premises, paying a fee to local businesses to operate. We have around 180 in stores at present, approximately 20% of our branch network in Australia.

Through our community involvement programs, we support our staff in getting out and working with the community on projects important to them. We provide dollar for
dollar donations matching for any funds that are raised or otherwise donated by staff via our widely recognised Matching Gifts program, which supports several hundred registered charities. We make sure our staff have paid leave for community activities and flexible working arrangements to enable them to meet their community commitments. Between December 1998 and March 2001, a total of $2.5 million was distributed to charities selected by Westpac staff.

Operation Backyard encourages staff to apply for funding support for local environmental projects in which they are participating as volunteers. Between 1998 and 2000, Operation Backyard supported 130 projects, to a value of $600,000, with over 80% going to projects in rural and regional areas, revegetating denuded sand-dunes, clearing waterways of pests and similar practical activities.

In addition our direct assistance programs reach across a range of causes – from helicopter rescue, youth education, charitable and welfare support, overseas aid, research into juvenile diabetes, indigenous programs to the arts. In total we are putting in excess of $25 million each year into these financial inclusion and community initiatives to help strengthen Australia’s social capital.

My point in mentioning these is not at all about breast beating. These activities simply reflect a proper awareness of Westpac’s role and responsibilities in the Australian economy and society. There is certainly more that we can and will do. But they reflect our genuine commitment to inclusion, fairness and compassion – qualities that Australians want to see in the large institutions of our pluralist society.

**GOVERNMENT’S RELATION WITH BUSINESS**

A discussion such as this must inevitably consider the question of government’s relationship with business, and in our case, banks. I remain firmly in favour of open and competitive markets, and firmly opposed to government’s often well meaning attempts to regulate market behaviour.

And I should tell you that these were my views when I was on the other side of the fence in Australia’s Federal Treasury, when I headed the task force on financial deregulation. So while I may look like gamekeeper turned poacher, in fact, my views have been pretty consistent all along.

I have always believed that a lightly regulated business environment is better for customers. Competition, properly supervised, ensures lower prices and better service. Turning back the clock would penalise customers. And there are other reasons.

In practical terms, a diverse and increasingly global and complex world such as this one is becoming very hard to regulate effectively. Too often regulation is a sledgehammer which causes as many problems at a regional or national level as it solves.
But, more profoundly, aggressive regulation will be a confirmation to a global capital market that the community and the government don’t find their corporations to be trustworthy. Once we head down that path it will be very hard to rebuild the confidence and trust necessary to compete for global capital which is increasingly mobile. Invariably, regulation puts additional costs into the system and these affect global competitiveness.

While the purpose of regulation may be to increase the pool of social capital, it may, paradoxically, only contribute to its long-term dilution. The challenge for Westpac and other corporations is to make the revolution of our times work for all stakeholders and to demonstrate to the community and the government that aggressive re-regulation isn’t necessary. We think it’s possible and we are working very hard to make it happen.

Profits and social responsibilities need not be in conflict.

Accepting our social responsibilities is not simply the right thing to do but it’s good for business – good for Westpac and good for our shareholders. Healthy profits require a healthy reputation and our reputation is determined by the experience of our customers and our other stakeholders.

Doing the right thing for a company involves delivering on two fundamentals. Firstly the non-negotiable principles of honest and integrity, which are inviolate regardless of the impact on shareholders. And secondly the obligation to shareholders not to compromise profits by pursuing causes that simply reflect the personal fancies of management. Or more simply you need to balance both principles and profits.

In fact, there is no denying the link between successful companies and companies with strong, positive reputations. The more bridges corporations build back to the community, the more correctives they find, the stronger the nation will become.

CONCLUSION

Let me conclude.

Investing in social capital does not require a trade-off in competitiveness. On the contrary. The point of building social capital is that it puts us on the path, not just of development, but of sustainable development. This means operating in ways that meet the needs of the present without compromising the ability of future generations to meet their needs.

We need to deliver both corporate and public sector policies that indeed help people to join in the prosperity and gain control over their lives. In this pluralist age it’s time for leaders from all areas to take greater responsibility for the creation and sustenance of trust.

That’s how we can ensure sustainable business and social outcomes to protect what’s best about Australia today, and to make it even better tomorrow.