Reflections on a Life
in the Economic Fast Lane

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Here I am at the end of eighteen years and I have to confess that I have a credibility problem – it does not seem credible to me that I am leaving, that my time is up, I'm out the door.

It seems just the other day that I joined the Company. But for that matter, it seems just the other day that I took my last money box to the Malvern branch of the Bank of NSW.

You keep your head down and do your best, and when you look up – well, it's time to go. I will say that much about myself – I've kept my head down. I've given it everything I could. The trouble was I had this thing about succeeding. People talk about the devil driving – well, that's what I had, a sort of demon. I didn't exorcise it, but then I didn't especially want to. It's like that of course.

I decided to give in to him and do what came naturally. I might not have been Adam Smith or John Maynard Keynes, but they weren't either until they put in the hours. Who knows, I thought - I might go to the next level. I started working hard one day and I've never really stopped. I don't know how I'm going to stop now.

I've been very lucky. I've always known that. Being born in this country and growing up in the fifties and sixties was the first great stroke of luck. Being raised in modest circumstances I count as a second stroke: it nourished my competitive instincts and thus fitted me for the new economy.

Going to a new university with a meritocratic ethos and a couple of brilliant teachers – that was the third part of my luck. Economics was the fourth part – I fell in love with the subject. There is no luckier person than the one with a vocation. Economics became mine and it has sustained me all my life.

I'll jump over all the other bits of luck I had on the way to joining Westpac – except for one, because in a way that I sometimes find uncanny, it became part of the same story.

The luck was to join the Federal Treasury at the beginning of a great era of reform. I joined in the early 80s, around the time the Campbell Report recommended deregulating the Australian financial system. I was put in charge of the Task Force to consider that Report's recommendations, and then I struck a government with the courage and zeal to implement them.

I think about it sometimes: had I joined the Treasury at any other time in the past century, the chances were I could have slept through much of my time there. But I struck a decade of exhilarating reform and dedicated reformers. It was a time when we felt as if we were remaking the country – and in fact we were.

I also struck great talent and great characters, both in the department and in the Cabinet: people who shared my passion for work and economics, and it is not too much to say, for Australia. That's how I was lucky: it's always lucky to be there at the creation. Or the resurrection. Which brings me to Westpac.

When I joined Westpac in 1990, the bank was falling to its knees and shortly thereafter Kerry Packer and Al Dunlap were waiting to deliver the coup de grace.

The oldest company in Australia, the company that has been such a vital part of Australia for all but 29 years of the nation's history, almost fell into the hands of Al Dunlap! It's what happens when you think you know all there is to know. It's what hubris can do to you.

Westpac got deregulation wrong. It got it wrong because many of the people running Westpac weren't equipped for it – the wrong ideas, the wrong reading of the times and the wrong ethos.

They thought deregulation meant a free for all, where a bank could choose to play any games in any field it chose - regardless of comparative advantage. They thought nearly 170 years of success guaranteed ongoing success.

But the fundamental point about deregulation was the opposite of this: the point was that past protections were gone and you had to get better – much better - at your core business. But it was the core business that Westpac abandoned prematurely.

The new Australian economy demanded profound changes in the previously heavily regulated banking industry. The story of Westpac's recovery and growth is primarily a story of these changes – the demanding and sometimes fraught circumstances of their conception, their painful birth, their often laborious implementation.

Things were happening in the new economy that provided opportunities for banks with eyes to see – and they were happening in core business areas. For example, there was an unmistakable sign that the future of household savings no longer lay primarily with bank deposits, but rather with superannuation and a whole new wealth building industry.

The other thing demanded by the deregulated economy was that merit be recognised – fully recognised.

The irony of deregulation was that seven or eight years in, government was still leading and business was still lagging behind. It was still trapped in the habits and certainties of the pre-regulated world. Not to put too fine a point on it, it was being strangled by the old school tie and the received wisdom of that ancient hegemony.

As it happened I'd had to hand in my old school tie as a ten year old, when my father went broke and the bank sold the house out from under us.

So I suppose well suited to the deregulatory environment: I had the personal incentive and the right work habits.

And work we did. In the early 1990's the company was in crisis. In the space of six months, the Chief Executive, the Chief Operating Officer, the Chairman and four other Board members had resigned or been sacked as the price for a badly botched response to the deregulated financial system was brought to account.

In these necessitous circumstances, I was put in charge of a team with responsibility for about two thirds of the bank, and we set out on an urgent recovery programme. The team voluntarily cancelled all their Christmas leave and we ramped up our performance targets. We worked day and night seven days a week.

I don't know if our efforts saved the bank. A number of people were kind enough to say they did. I don't know if that was true, but I know for sure that we proved what the right people with the right motivation can do in business.

I had seen it in the public sector, and now I saw it in the private. I've no doubt that everyone who was in that team took from it a new or renewed faith in what deeply committed teams can do. If I was to nominate a business value to come out of that experience, it was a belief in people and the imperative to invest in them.

When I went to head the Institutional Banking Group in the second half of the nineties, I took this belief with me, and the team we assembled then became the team that led the bank as a whole when I became Chief Executive in 1999.

In that year Bob Joss, to his immense credit, announced a record profit for Westpac. The bank had very plainly survived.

But we had survived at a fearsome cost. Our shareholders were tolerably content, but our staff had paid a price in sweat and tears. Thousands had been laid off. Too many of the thousands that remained were demoralised, disfranchised and alienated: though perhaps not quite as alienated as our customers.

Our customers thought we – along with the rest of the major banks – were greedy, arrogant, contemptuous and ignorant of their needs.

Communities felt the same way: as they saw it, banks had taken de-regulation to mean that their only responsibility was towards their shareholders.

Politicians were objects of love and devotion compared to the big banks.

In short, we had lost the trust and confidence of most of our key stakeholders. What’s more, a second look at the financial results showed they were based not on expansion but shrinkage of our market share.

In the prolonged effort to recover from near extinction and to meet the challenges of the newly deregulated environment, the burgeoning global economy, the unprecedented levels of competition, the new technologies – just surviving had become an end in itself. It had become a culture of survival.

The oldest company in Australia had survived, but had few plans for its future. It had become a bit like the dog that chased the bus. It caught the bus, but what to do with it? Unlike the dog, we couldn’t retire panting to our front yard. This was the deregulated world - our old front yard was everybody else’s as well.

I began by talking about my good luck. There have been 23 CEOs of Westpac in 190 years. That’s an average of about 8 years for each one. The odds are stacked against being in the right place at the right time to get the job.

But I got it. I had one big thing going for me – I knew the bank and all its operations very well, having run each of them over the previous nine years. I’d seen it at the bottom and been there through the recovery.

For me, that May 1999 result was proof of the need to set a new course. Those financials could not be sustained into the future unless we restored the basic ingredients of a decent business.

There were two great tasks to be undertaken in 1999. We needed to define a real future for the bank, and we needed to rebuild the faith of our staff, customers and the community.

The first task meant building Westpac’s share in the burgeoning wealth sector and capturing the enormous opportunity presented by compulsory private superannuation. It meant a departure from the strategies that had led the bank into perilous difficulties; into risk-prone businesses and markets that were not well understood.

The steps we took instead - acquiring and rejuvenating BT, Rothschild and Hastings, calling out the shift in household savings, setting bold goals for the company in the superannuation revolution – were the most important strategic steps the company has taken in its recent history.

The second task was to restore trust and respect. The banks had been regarded as pillars of the community – they were now pariahs. When I say pillars I don't mean they were loved, or regarded as much better than niggardly. But they were generally trusted and grudgingly respected.

The erosion of faith in the banks was particularly startling in a company that had lasted for the best part of two centuries. Westpac evolved in parallel with the country's society and economy. It survived depressions, recessions, wars and attempts at nationalisation. But deregulation had nearly killed it and in the space of half a decade or so two centuries of goodwill had gone down the drain.

If we wanted the bank to last for another two decades, let alone two centuries, we needed to restore the good will. Without it we were not sustainable.

The community was right. 'Shareholder value' had become the mantra of big business: business should look after the shareholders and the government should look after the people.

This was a big mistake, and a particularly glaring one in the case of a bank – not just a bank, but Australia's oldest company. As we laid the basis of a new culture at Westpac, we were also *re-laying* some of the traditional foundations. We were recognising that we were a bank, not a clothing company or a factory: and whether they put their savings in them, or finance their businesses through them, or work for them, or live with them in the community, people expect banks to behave like banks and act in their interests.

Restoring trust began with the people who worked for Westpac. Where else could it begin?

The history of Westpac's last thirty years is the history of a very old company in a very old sector of the economy coming to terms with, not just the deregulated Australian economy, but an economic and technological revolution without precedent in scope and speed of change.

The task of rebuilding the faith of our employees and our customers was made that much harder by those two intertwined revolutions: it had to be done in the face of momentous and unceasing change that even as it created prosperity, also created deep uncertainty and put unprecedented pressure on the lives of working people.

I know I'm not the only person in business to discover that, just as you couldn't make the changes the company needed to make without the company's people, you can't tell the story of success without acknowledging their trust. I mean trust that you care about them; that you will listen to them; that it is safe to speak up; that you care about what they think and value and believe.

Engendering a direct, high trust relationship with our people – with enthusiasm, loyalty and self-belief where they had been none of these things – has been, I think perhaps the company's most significant, and valuable, achievement.

Valuable because such employees are more efficient and productive; from them you draw more discretionary effort. Employees who enjoy coming to work, work more effectively than employees who don't. If they like their work; if they're rewarded on merit regardless of gender, race or ethnicity; if the company's values align with their own; and if they're proud of the company they work for; they will work harder, they will essentially manage themselves and stay longer with the company – and for the company these are huge advantages.

In recent years we have worked hard to establish a much more open culture in which people are free to speak their minds and challenge the way things are done. We've worked particularly hard at leadership and teamwork. I have spent a lot more time than I ever imagined talking and listening – frequently and directly – to the 2000 leaders of our 28,000 strong staff.

The success of Westpac in recent years has been built on this kind of cultural change.

These were the 'analytical foundations of business' that for more than a decade Westpac – and indeed business in general - had needed to discover.

We set about building a trustworthy, responsible and ethical organisation – values that simultaneously met the needs of our organisation and of the people that we wished to attract and retain. This objective was at the heart of our corporate responsibility and sustainability programme – which, I have to tell you, has become not just a source of great pride within the company, but an essential part of the bank's culture, brand and strategy.

In fact the most recent chapter in Westpac's history might well be called "The Road to Sustainability'.

If you ask what I learned from the last fifteen years, it was much as I learned in the decade before that – that given clear and worthwhile goals, respect, a voice, aligned values and proper rewards, people can and will do remarkable things.

For people used to the language of business and economics, these are soft-sounding words: just as improving childcare and maternity and paternity leave, and sustainable business practices, are soft-sounding initiatives. But I think we have demonstrated beyond question that these things build shareholder value.

I would say the same thing about the work we have put into making merit a core principle in the company. And the directly related fact that we have raised the number of women in management positions from 25 per cent in 1999 to 43 per cent now.

Similarly, we've lifted the number of mature age workers and the proportion of our workforce born outside Australia. And we're working at building skills in indigenous communities and employment opportunities for the disabled.

We've surveyed the attitudes of our employees – and for us it makes for satisfying reading. In short, more of our employees are more committed to the company than at any time in the last decade. And the figures that show these are the highest of any large company in Australia.

There is of course another great benefit in all this. In our business employees are literally inseparable from customers. To our customers, our employees <u>are</u> the bank.

Because customers don't trust companies; they trust people. The underpinnings of a successful brand in our business is most often a matter of human connection. Only humans have passion, only humans have integrity – our customers will judge the credibility of our brand in large part by the values of our people.

There is a direct correlation, if you like, between loyal employees and loyal customers. And it's in that correlation that shareholder value substantially lies.

As I said, we realised that to succeed in the modern rapidly changing world, we had to look to our past. We had to become a bank again.

And I think we have. We became a preferred employer. We became the number one bank in the world, and one of the foremost companies in Australia, for sustainable practices. We became a good citizen.

We managed broad and we managed long. We did this because it is good business to do it. It's good for shareholder value. It's good – in fact it's essential – for the long term interests of the bank and banking.

The results of all of the foregoing are plain to see:

- The highest employee commitment and engagement of any large company in Australia;
- Record levels of customer satisfaction;
- Ranked as the leading bank in the world or equal leader for sustainability for the past 6 years; and
- A sector leading combination of growth and returns, sustained for most of the past decade.

But what is more significant than these figures is a permanent, sustainable transformation of the company.

Deregulation brought new responsibilities with the new freedom.

The old dictum that business only has to manage business and government manages the rest, no longer applies. Over the past 35 years or so, power has shifted quite dramatically from the public to the private sectors; but if we in the private sector do not exercise it conscientiously our licence to operate will be at risk. In a democracy it does not pay to take the people for granted. What can be de-regulated can be re-regulated – all it takes is a wave of popular discontent.

They say that opportunity springs from adversity. No doubt that is true enough, but I wouldn't want to rely on it. What I think may be said more reliably is that adversity very often contains lessons, and there are rewards for those who are willing - and last long enough – to learn them.

The truth is some things can ONLY be learned from experience. So long as they're the right things - and not the only things that you know or care to believe.

It's clear to me now that the troubles Westpac went through had the ultimate benefit of driving management to reach the depth of understanding and dedication to remake the company as thoroughly it had to be remade.

I'm also aware that Westpac's struggle to survive served my own career at the bank. I learned more than I would have otherwise, and I believe that I achieved more because of what I learned. I think all of us who went through those times and survived into the new century were wiser and stronger for the experience. Above all, I think we learned not to trust fashionable mantras, especially those that originate in hierarchies.

But, in conclusion, here a few mantras of my own.

Nothing fails like success. As inflation is to an economy, hubris is to management. Beware the cancer of arrogance.

That's why the culture of a company matters more than we ever thought a decade or so ago. Working on the culture of the place, questioning the way it works and the way it thinks, and especially what is taken for granted, is the only cure for hubris. It is thus a defence against calamity as well as a major source of comparative advantage.

And one more mantra of mine. The four pillars cannot stand forever. Indeed they can't stand for much longer. To believe that they can or that they should is like believing that centaurs can and do exist – a lovely idea, but impractical in the modern world.

Much that I have learned – that Westpac has learned – mirrors the experience of business everywhere. We have been fortunate enough to live, not just in a long boom, but a period of prolonged change – some of it brought about by courageous governments, some beyond all our abilities to control.

To have been near or at the centre of all this has made my life a profoundly privileged one. It feels as if I picked up a thread the first time I walked into an Economics lecture with Professor Donald Whitehead at La Trobe University in 1967 and I have followed the thread ever since – from Maynard Keynes to Milton Friedman to John Stone and Chris Higgins and Bernie Fraser and Ted Evans and Paul Keating - to Westpac and Bob Joss, John Uhrig, Leon Davis and Ted Evans again, all the great people of the board and with whom it has been my privilege to work at the bank these past eighteen years.

Good boards, good chairmen and good colleagues are priceless and indispensable and can never be taken for granted. I sincerely hope that I never did or never seemed to.

This story I have tried to tell tonight is a story of business, economics and, to some extent, politics; but it turns out to be principally a story of people – people of ability, perseverance, vision and good will. And of course there's lesson in that for business – and for economists, and for politicians.

Bob Joss who was my predecessor in this job said to me last year that what impresses him most about Westpac in 2007 is the respect in which it is held. It's true. Westpac today is a company conscious of its past and proud of it. It is also conscious of its future and confident about it. But above all, I hope and believe it's a company in tune with the needs and the spirit of the present age.

For nearly two centuries Westpac's story has weaved in and out of Australia's story. The two are inseparable. It is true of the bank's first thirty years, and profoundly true of the last thirty. To have been part of that, to have participated in the drama of it, I count as one of the great privileges of my privileged life.

It's a good story and I've had a good time telling it, Bill Clinton writes at the end of his autobiography. Well, this is my story and I've had a wonderful time in the thick of it.

Thank you.