



## **In search of sustainability**

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### **Introduction**

It's a great pleasure to be here in Wellington.

Over a long period of time, ANZ – as the 'NZ' in our name suggests – has been one of the largest investor in New Zealand creating one of the largest companies in New Zealand.

That ongoing investment is a vote of confidence in the long-run future of New Zealand and the New Zealand economy.

After all, along with Australia, New Zealand has been one of world's best performing economies averaging growth of over 3.2% over the last decade. This compares well with the US at 3.4% and the EU at 2.3%.

Of, course, with economic growth forecast to be just 1.4% in 2006, the environment has become more challenging in the short term, particularly in the context that China's economic growth averaged 8.4% over the same period and India 6.1%.

### **Sustainable Growth**

While achieving higher levels of economic growth at low inflation remains the main national economic priority, the real issue is sustaining higher growth over long periods of time.

This isn't easy of course and, as with most things, it requires decisive action and persistence, for example, much of Australia and New Zealand's recent economic success is owed to the economic reforms some 15-20 years ago.

This is also true of companies. Today, managers around the world are in search of the magic formula that will make their company grow and outperform the competition, make it takeover and recession proof, and protect its reputation, while at the same time winning awards for environmental concern, corporate governance and social responsibility.

The fact of the matter is that only a small percentage of our companies survive, even over relatively short time frames. Let me remind you of the harsh realities of business life.

Can you tell me how many of the top 20 listed companies headquartered in New Zealand in 1980 are still in existence?

In fact none are still on the list in their original form - and just two are still in the top 20 today in their new form. They are:

- Fletcher Holdings (now Fletcher Building)
- Fisher and Paykel (now of course split into Fisher and Paykel Appliances and Fisher and Paykel Healthcare).

In Australia, of the top 20 companies in 1980, only 5 are on that list today. (I am pleased to say ANZ is one of them.)

In the United Kingdom, the FSTE 100 index started in 1984. When the index celebrated its 20<sup>th</sup> anniversary, only 23, of the original 100 remained.

In the United States, the S&P 500 index began in 1957. 45 years later, just 74, or 15%, of the original 500 companies remained,

The truth is that only a few corporations survive as thriving entities. They become less important, collapse, or end up as part of another entity.

In 1982 Tom Peters and his colleague Robert Waterman published their best-selling management book *In Search of Excellence*.

He believed by the late 1970's the great American corporation was being run by bean counters.

Contrast this, with what Peters says became the essential message of *In Search of Excellence*, simply:

- People
- Customers
- Action

And so what kind of success does this emphasis on people create?

International research by Hewitt Associates indicates that companies with high levels of staff engagement have an average Total Shareholder Return of over 20%. For those with indifferent or destructive levels of employee engagement, average Total Shareholder Return is half that – less than 10%.

My own perspective draws from the “University of Life” (where I am still a student rather than a graduate) and which draws from a business career spanning 37 years in manufacturing industry, banking and finance.

What I have seen is that size, strategy and balance sheet don't seem to have made much difference to whether a company survived or disappeared.

In my experience it's the culture of a corporation that has really mattered. You don't need to look past one of the world's largest business failures – Enron in the United States – to understand that.

### **Customers and staff**

The first point I want to make is that sustainable growth in revenues at high economic return is essentially what establishes economic value.

And the most critical driver of sustainable growth is an expanding base of committed customers.

Customers are really looking for something of value to them, that only you uniquely can deliver to them. Customers need a tangible reason to do business with you and not with someone else.

Businesses that cannot answer clearly why a customer should deal with them rather than their competitors are unlikely to survive. Surprisingly, few businesses can articulate this.

Every day, I hear all sorts of people say, "all banks are the same". This is why I insist that all of our top people can answer this question "why are we unique and different to our competitors", and I won't let them advance their business until they can answer it.

Jack Welch, the former CEO of General Electric, once said, "Any company trying to compete ... must figure out a way to engage the mind of every employee."

This is especially true in service industries like banking, where individual employees deliver nearly all of the company's value to customers.

That is why at ANZ we work hard to try and be "The bank with a human face". It's hard to have a relationship with an automated voice or an ATM. Customers and communities make banks ... the more the high tech we are ... the more we need the human touch...we needed to put humanity back into banking and to the communities we serve.

Many forget that it is people that serve customers, create new ideas and that make companies great. Put simply, you need the right people, doing the right things, and doing things right.

At ANZ we have over 30,000 staff in 30 countries serving more than 5 million customers – and almost 10,000 of those staff are here in New Zealand.

No individual chief executive or divisional manager can make each of the millions of transactions we do with customers every day live up to our brand promise. Only a culture of fully engaged employees can do that.

And so it is natural there are very direct links between increases in employee engagement and sustained financial performance.

In selecting employees, companies have spent far too much time and money focusing on the knowledge of employees and not nearly enough on their talents and values, which are the basis of longer-term success.

When you have the right people you have to find a way to engage them. There are many ways to do this -- pay them more, provide more generous benefits -- but these are 'low-character' solutions.

The only way to engage talented employees successfully is to select and develop great managers and leaders. Great leaders select the best people, set stretching but achievable expectations, create an energetic environment, and give people opportunity and development. In other words they create a great culture inside the organisation.

Every employee wants to hear from their supervisor or manager about the job they are doing. They want their manager to recognise them ... not only with money but to recognise them and thank them for doing a good job ... for putting in the extra effort ... for living up to our promises to our customers or for putting in to the community.

Investing in leadership and management is fundamental, as superior leadership is the scarcest resource in business today.

As leaders, our main responsibility is to enhance the capacity of our people to reinvent a new future for the organisation.

This requires us to create an environment of opportunity and challenge for our people, enhancing their capacity to produce and create, and to stimulate, release and focus the incredible energy that only people working together for a common aim can produce.

Companies that can't do this will lose more talented people than they keep. They will miscast, over-promote, undervalue, and otherwise misuse those talented employees who do stay.

How people feel about working in the organisation and how passionate and engaged they are in its agenda, is what makes the difference between good and great companies.

Unfortunately many companies view their people as resources.

Personally, I have always detested the term "human resources". It lacks humanity and treats people as a factor of production. People are not resources to be allocated; they are investments in serving customers, in running an enterprise and in creating a future.

As I said earlier, it is people who serve customers, create new ideas and who make companies great.

Arguably our people invest more in the company than shareholders. They invest themselves, not just their money. They put their futures in our hands and spend their lives making us successful. If we fail, our people lose their livelihoods as well as their money. Our obligations to them in turn are enormous.

People don't just want a job they want a life. At work they don't just want to be an employee, they want to be a person, bringing their whole self to work, not simply what the typical boss wants them to be, defined and boxed, instead they want to be free and creative.

People are searching for fulfillment, and meaning. Since our staff members spend most of their waking lives with us, if we as employers can't or won't help them on this journey they will find it on their own, or with those companies who will.

### **Breakout at ANZ**

With this background, ANZ began a cultural development program in 2000 called Breakout.

It had a very simple aim. We wanted to unleash the energy, values and potential of our people, while encouraging them to seek opportunities for personal and professional growth.

Breakout was initially about tackling accountability, openness, values and opportunities, by rethinking the way we worked together and eliminating bureaucracy. At the time, these were the most important things culturally that we had to get done.

Over 22,000 people within ANZ have now been through this Breakout program in its various phases and each phase is tackling a different priority or issue that we are facing.

The vitality of our Breakout program is as important to ANZ today as it was in 2000. Now the programme has evolved to getting the whole organisation aligned to the customer and towards superior revenue growth.

The progress has really been quite remarkable. If you look at ANZ over the last five years, you would see a radical shift upward in all eleven dimensions of our performance ethic framework.

The development of the organisation's values has seen us moved up to the fourth stage in our evolution framework as an organisation based on continuous improvement, adaptability and teamwork. We are now working on the fifth stage based on organisational coherence and shared vision and values.

That progress is reflected in our consistently strong financial performance, the strategic improvement in our market position and a radical rise in staff satisfaction, up from 49% in 1997 to over 85% today.

High staff satisfaction is not enough. We really need high commitment and engagement of our people in our overall agenda.

So, in late 2004 we launched our first group-wide 'Staff Engagement Survey', administered by Hewitt Associates. According to the survey findings, 60% of our people are fully engaged, and 10% are disengaged.

This is the highest level of engagement of the top 20 companies on the Australian Stock Exchange, and gives us a leading industry position on engagement, 6% above the financial services benchmark.

The values inside the organisation have also changed dramatically.

In 2000, survey participants nominated 'cost reduction' as ANZ's most important current value. This year, while financial performance remains our strongest value, 'customer focus' and 'community involvement' were our number 2 and 3 values – a major step towards realising our aspiration to be the 'Bank with a Human Face'.

This progress in turn becomes a catalyst for attracting great talent and leaders to the organisation because you are creating an exciting future for them.

It's an environment where our leaders of tomorrow can be out there in the unknown, breaking new ground, taking some risk and showing courage to create a more sustainable organisation for the future.

Now, given I am here in New Zealand, I want to acknowledge that we acquired a wonderful bank in The National Bank of New Zealand.

It already had leading levels of customer and staff satisfaction and I am pleased to say that in maintaining our two-brand strategy we have been able to maintain what is special about The National Bank.

## **Conclusion**

In conclusion, because so few companies stand the test of time, a great deal needs to change.

What is clear is that the way we have managed and led our companies in the past is not the right way, given the lack of sustainability and humanity of our companies.

Going forward, we need a new and more radical way forward, a paradigm shift in our conception of what a company is.

All of us here either deal with companies or work in them. We can sense when a company is working and when it isn't when we interact with it.

We can tell if it is engaged with us or not. We can sense whether it is interested in us or in itself. We can also sense when a company lacks the vital ingredients for success.

If we can sense these things, a company must be more than its property, its people, its products and its capital. What we sense is its true essence, and how alive, energetic and purposeful the company is.

My own feeling is that a company needs to stand for something beyond making money and maximising returns for shareholders.

Essentially it needs a higher purpose that says what it stands for and will live up to across all stakeholders, and be the guiding principle that governs all decisions within the firm.

This implies that a company is also a community that is interdependent with other communities. It takes on the characteristics of those it engages with and, in turn, influences them.

So in taking our corporations forward, we need to think of advancing not a company but a community. This means a very different agenda for companies going forward.

People are searching for meaning in their lives. I believe we are now firmly in a new age where spirituality, humanity and community will matter much more.

It is why on my bookshelf “The Seven Habits of Highly Effective People” has been overtaken by “The Monk Who Sold his Ferrari.” (Although I was told on my recent visit to the South Island, there are no Ferraris in Dunedin)

In such a world, enriching the vital spark or soul of the company becomes the real agenda for our future leaders, together with masterminding the engagement with our communities with the wider community.

There is no doubt in my mind that how we manage our people agenda is the key factor that will reshape our destiny and become the bedrock of our sustainability going forward

What I would like to challenge you with is the idea that in today’s world, it is a combination of science and spirituality which will help give us the strategic intelligence to ask the right questions, and create a more sustainable future for our business and our society.

This is a new and very different way of thinking about our role as leaders and managers, and it will tantalise and challenge you, as much as me, in the future.

Thank you.