Lucio Loubet

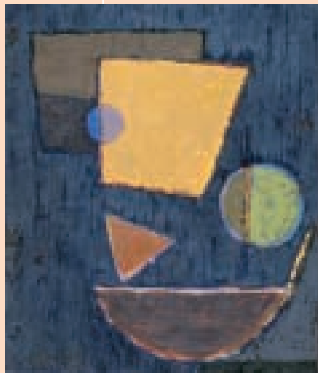
9ème série de la Métamorphose n° 3
(65 x 54 cm)

Part IV

Brand, culture and values

*"The advantage of a global brand is that it reinforces everything you do worldwide. [...]
HSBC has a brand characterised by an impressive degree of trust and integrity, and this is something we work hard to protect because once it's gone, it is very hard to recover."*

Douglas J. Flint



"We need governance controls based on experience and trust, but ones that are flexible enough to engage colleagues internationally with respect for their individual identities and cultures."

Douglas J. Flint

"Global brands have a particular challenge to ensure that the experience delivered all over the world is consistent, but consistent with both the stated global positioning and values, and also the local cultural 'norms'."

Ian Ryder

" As [our] values are beliefs that have to be taken into account on a daily basis, we are now working on codes of conduct that translate these beliefs into behavioural models and envisioned relationships with clients and non-clients, within the team and between different partnerships."

Pierre Hurstel

"We are principally attuned to aligning corporate values globally. Indeed, our human resources policies ultimately strive to embed such values – and the goals associated with them – into every program and initiative, on a global basis, in order to guarantee strategic unity."

Patricia A. Bradford

"Each group has its own focus, language, and orientation, making their cultures vastly different, and making each group's approach to accommodating change equally different. It is, consequently, no wonder that organisations seldom achieve the 'executional consistency' needed".

Ralph Welborn

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Conducted by **Catherine Distler (PROMETHEE) and Olivier de Conihout (Unisys)**

Strategic conversation with

Douglas J. Flint

Group Finance Director, HSBC

Leveraging capabilities, diversity and trust through a global brand

In 2004, as in the two preceding years, HSBC won the award of 'global bank of the year,' given by *The Banker*.[1] Earnings growth across the globe and new acquisitions expanding its global franchise are two of the principal reasons the newspaper cites in its nomination. Somewhat perplexingly, the tagline of HSBC's advertising campaign stresses that it is 'The world's local bank.' Is it not a contradiction in terms for a global bank, with a global brand, to position itself as a 'local bank?'

Douglas J. Flint: We call ourselves 'The world's local bank' because it reflects our internationality and the fact that we would struggle to identify a 'home' nationality. From our perspective this is healthy, though. For instance, when we acquired Grupo Financiera Bital in Mexico in 2002, we shortly thereafter renamed it HSBC Bank Mexico, an initiative which has been an astonishing success: we did a survey shortly after rebranding to ask our customers inter

1. HSBC received again this award in September 2005 (editor's note).

alia what nationality they thought HSBC was, and the largest response was "we don't know" – which was encouraging.
Indicative of comments like this, we find HSBC in the curious position of operating simultaneously as both an international and genuinely domestic bank in all the locations in which we conduct business. In a world where politics can occasionally lead to antagonistic sentiments toward foreign cultures, we find this to be an advantage. Some banks have operations in more countries than us, but no bank has so many deeply embedded domestic operations. HSBC is globally focused and trans-national to the core, while Citigroup, to name a bank with a similar international outlook, is distinctly American, just as BNP-Paribas is French or Deutsche Bank, German. Of course, we also have the advantage of having operated in many countries for a long time – HSBC is the oldest banking group in Japan for example.

Today, there is a general discomfort regarding globalisation, and it may be risky for a company to position itself as 'global.' What are the main implications of globalisation for HSBC?
DJF: Globalisation is a word that means something different to everybody you ask. Ultimately, I think this is probably a positive feature because it means people can either love it or hate it, but it sparks dynamic dialogue in either case. In practice, for many of our customers, the world is becoming a smaller place: they are selling and sourcing products, and organizing their distribution networks and operations across many more countries than previously. Of course, concurrent with this is their need to have access to financial support.
The opportunity for us is to make it clear to our existing and potential customers that HSBC is a local bank in very many countries and that we can provide support to our customers in all the locations where they might operate. In most countries, we can offer them personal checking accounts for their staff, access to trade finance and credit advances for their operational needs as well as deal with money transmission and currency needs.

Your customers' operations are getting more and more global, as are those of banks. Many financial institutions, HSBC included, are outsourcing and off-shoring part of their back office or IT functions. How do you see this form of globalisation developing in the future?
DJF: Many people think becoming global means shifting jobs to low cost locations, but this is far from the truth. It is about having centres of excellence. The world's film industry is in Hollywood, aerospace in Seattle and Toulouse,

while the world's investment banking capital remains New York. It is 'right sourcing' in some sense rather than outsourcing. HSBC has 232,000 employees to serve the global needs of its customers; they are based in centres of excellence and connected globally. It is true that some of our IT resources are located in India and China, but we still do much of our high value technology work in the UK, Canada and United States – these are the centres of excellence where we can best leverage particular talents. The interesting opportunity for HSBC being global lies in not having to duplicate an investment from one country to another one but rather in benefiting from leveraging the expertise and experience that is already in place.

Banking is often a remarkably simple business dressed up in complicated terminology: at their core, banks are intermediaries that transform short-term savings into funding for longer-term investments. Demographic patterns are also standardised: customers borrow when they are getting married or raising their children, and they save once they have settled down and when their children have left. All over the world people do the same thing! The fact that the world is in different demographic stages only means that different countries have different focuses according to whether populations are younger or older. So, it is possible to leverage our experience and expertise across borders.

Demography is, indeed, a key differentiating element between markets today. Sir John Bond has said that HSBC believes that 50% of the increase in world demand by 2050 will come from China, India, Brazil and Mexico. What are the specificities of these markets and what strategy is HSBC conducting in each of these countries?

DJF: Our view is that in the long run, the fastest growing areas in the world will be NAFTA, led by the US, and Asia, led by China. It is sad not to mention Europe, but the demographic reality can't be denied: the European population will decline over this period while the American – thanks to immigration – and Asian ones will grow.

The developed world effectively has an oversized banking system with large talent-pools and declining traditional financial services requirements (owing to ageing and declining populations). Therefore, at HSBC, we want to focus on those markets where the penetration of banking services is low, between 10% and 30% in most places, and where we predict a strong growth in the middle class population. For instance, in Mexico, which is part of NAFTA, 80% of the population is unbanked. Moreover, Brazil has a population of 180 million people and a growing, and an increasingly wealthy, middle class. Creating a

banking model there is a very promising endeavour, especially now because of the relatively low inflation and interest rate environment.

Although we are not yet allowed by regulation to buy anything in India, we benefit from a significant reputation with the Indian government and we are well known in the business and high net worth population because we have been in the country for so long, even though we only have today a small market share. So, there is a huge opportunity for HSBC in India as well.

HSBC has been in both China and Hong Kong for over 130 years, and our Chinese operations have been profitable for well over half of this period. Moreover, we have taken significant strategic steps during the last five years, illustrated by our participations in Bank of Communications, Bank of Shangai and Ping An Insurance.[2] Over time, these co-operations will allow us to build stronger relationships in this region, not to mention that they will offer access to distribution platforms that will enable us to learn more about the market place in advance of the date when regulations eventually permit us to distribute our products in our own name.

These are the countries with the fastest growing middle class populations in the world and we are very fortunate to have a significant presence in them

Among the interviewees, you are the only one to mention Latin America as an area of future growth. Claude Brunet, in particular, told us that AXA has decided to exit South America because it could not reach critical mass there. How do you explain that HSBC sees Brazil as one of the global growth centres of the next 20 years while other financial companies do not?

DJF: I think this reflects our focus on retail banking: when a country reaches an average per capita GDP of $5,000 to $6,000, people start to need banking services. They want to acquire their own home, purchase a car, take out simple insurance, and so on. However, they don't tend to go into a life insurance product until they are a little bit wealthier. In Asia, we have observed that banking services grow quite strongly before people buy insurance, but then they start buying insurance. It is a timing thing. That said, we have a relatively large insurance business in South America, and it is doing well.

Earlier on, you mentioned how HSBC's advertising tagline – 'The world's local bank' – is focused on establishing an overall Group identity, not mere-

2. HSBC announced recently (September 2005) that it will invest $500 million in Bank of China that is planned to be listed by the end of 2005 (editor's note).

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ly an image of multiple, but interlinked domestic brands. What benefits do you ultimately expect from this new strategy?

DJF: The advantage of a global brand is that it reinforces everything you do worldwide. This may be irrelevant for small, highly localised clients, but for our most valuable customers – those who do business internationally – it is absolutely critical. Our main objective is to build a brand that is trusted. Today, I think that HSBC has a brand characterised by an impressive degree of trust and integrity, and this is something we work hard to protect because once it's gone, it is very hard to recover. The other element of having a united global brand is international presence. When our customers get off a plane anywhere in the world, not only do they see the HSBC symbol on the ground, but they also see it on advertisements in magazines while on board or in the local newspapers once they have arrived at their destination. Cumulatively, this is tremendously powerful.

Four years ago, we hired Peter Stringham, former Managing Director of the advertising agency, Young & Rubicam, as Group General Manager Marketing. Since coming to HSBC, he has greatly advanced our understanding of marketing, stressing that what we used to think was marketing was in some cases nothing more than uncoordinated advertising. So, we have learned the discipline of global marketing and the importance of survey feedback, in terms of what people think of HSBC, the values they ascribe to it and how our employees understand and live the HSBC brand. We are already witnessing positive revenue growth as a result of these changes, and we are only in the early stages. In five years, we have gone from having no brand, to being regarded as the 33rd most valuable brand in the world.[3]

One of the challenges of the Group's brand is that if something happens in Indonesia or Argentina it is associated with a brand well recognised in the UK, America, Europe, whereas when our subsidiaries had different names, people would not necessarily associate a problem in one country with the Group. However, we think the Group's brand strategy has reinforced our identity and has been quite powerful. You may have seen the clever adverts we use highlighting the diversity of the world.[4] Since we started this advertising campaign, we have had a notable growth in the services we provide internationally.

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3. Douglas Flint refers to BusinessWeek / Interbrand Annual Ranking published in July 2004. In the most recent BusinessWeek / Interbrand Annual Ranking published in July 2005, HSBC is ranked at 29 with a 20% annual increase of its brand value (editor's note).

4. See, in this book, Ian RYDER, "Issues and patterns in global branding", p. 205-225.

Among the risks associated with global brands, as you suggest, the loss of trust is obviously a key issue for a bank. What kind of governance model do you apply at the global level to prevent local mismanagement from damaging your global reputation? What is the balance between a centralised and a federalist approach in that matter?

DJF: We dislike the word 'federal' because it implies loose linkages. Rather, we try to have what we call a 'collective management' because the people who run our businesses worldwide know each other very well.

To be successful, a global company needs to have a governance model – a guiding behavioural model embedded within the company – that is universal, but sensitive to local environments. As an international corporation listed on multiple stock exchanges, each possessing different governance requirements, we understand that business is executed differently in the UK, Malaysia or Brazil. So, we need governance controls based on experience and trust, but ones that are flexible enough to engage colleagues internationally with respect for their individual identities and cultures. Ultimately, this approach helps us in terms of globalisation, so that we don't grow purely on the basis of being Anglo-Saxon model.

Let us move from global governance to global strategy. During the 1998-2003 period, HSBC conducted a plan entitled 'Managing for Value.' One of its key objectives was to increase the total shareholder return (TSR). How did this objective integrate with HSBC's globalisation strategy? Did it prevent HSBC from making significant acquisitions?

DJF: From 1998-2003, we not only increased our TSR significantly, but also acquired many significant companies like Republic National Bank, CCF in France, Household in the US, Demirbank TAS in Turkey, Bital in Mexico and Mid-Med Bank in Malta, to mention only some. During that same period, the Group's brand strategy was designed and implemented, and HSBC changed its management configuration, from geographical to a mix of geographical and customer group. In sum, this plan did not impede strategic moves; instead, it helped to extend our geographic reach and to reinforce our global coordination.

Circa 2004, a new plan has been implemented under the headline of 'Managing for Growth.' How would you characterise the difference between this strategy and its precedent?

DJF: The main difference is psychological. During the "Managing for Value" plan we spent a lot of money acquiring businesses, developing new banking

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products and investing in a global brand. We also invested substantially in both technology platforms and the Internet to improve our management of customer relationships. With our new plan, "Managing for Growth," we want our colleagues to focus on capitalizing on what has already been spent and to deliver results. Basically we are saying, "we have built the infrastructure, now go and grow it and leverage the investments we have already made." Of course, this doesn't mean we won't invest any more – we have done so quite substantially since the beginning of 2004 – but it is a point of emphasis: leverage the former investments rather than seek new acquisition opportunities.

In the "Managing for Value" plan, HSBC made explicit its objective of doubling its TSR and beating the TSR performance of peer banks over this period, both of which were achieved. Does "Managing for Growth" have similar objectives in terms of TSR?

DJF: Not quite the same. Under "Managing for Value," we wanted to set a difficult objective of doubling TSR, and we wanted our senior executive body to have a single, clear objective as to how we should perform *vis-à-vis* our peer group. At the time, it helped focus everybody on the right thing.

This time around, we feel we are in a different world and stage of evolution and that it might be counter productive to seek a specific target. Therefore this time no absolute target but still a clear focus on beating our peer group.

So, in the "Managing for Growth" model, expansion will be organic rather than through acquisitions?

DJF: When we set our plans, we assume that we will make no acquisitions. In this regard, we tend to be opportunistic and to wait for periods of stress or volatility, such as when businesses are getting into trouble or reaching the end of their ability to leverage their platform further without geographic extension. Many of our acquisitions were institutions finding further growth difficult because they just weren't big enough or did not have the right geographic coverage. So, they were running out of road and they knew the only solution was to join a larger organisation; the question for them was either to choose their partner directly, or to wait for an event that would potentially put them in the unenviable position of having no choice as to where they end up. In such cases, organisations often select us directly and they offer HSBC real synergies because they have great domestic franchises to plug into our international networks. For example, Republic through its private banking operations, CCF through its dealings with major French corporations and Bank of Bermuda through its international fund

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administration business, all brought huge opportunities to HSBC. And of course Household added a completely new business line.
In the coming years, we don't need a transformational acquisition but you never know what circumstances might bring. However, incremental acquisitions that could extend our customer base or provide us with additional product capabilities will be carefully scrutinised.
The key thing with acquisitions is to maintain discipline. We are not a fund manager and therefore there is no point in building an empire that a fund manager could do for himself because the premiums to do so would be exorbitantly high. So, if somebody thinks that HSBC and XYZ Bank are a great combination, they can buy shares in both, but they certainly don't need us to do so directly. Therefore, I think that the overriding discipline in acquisitions is to seek opportunities in which the combination of the two organisations offers more by way of synergies than a fund manager could achieve on its own.
Some people suggest that being big is essential, but for us, this is irrelevant. Some of the biggest banks in the world are Japanese and they are not the most profitable. HSBC is not interested in size, but seeks to obtain the broadest range of capabilities possible.

You mention some of HSBC's recent acquisitions. Which ones do you consider to be the most successful? What are the main criteria HSBC applies when selecting acquisitions?

DJF: First and foremost, we establish whether our management values are inline with those of the company we will potentially be buying. If not, no monetary value can rectify this dichotomy and we have rejected deals that were available when it became obvious that managerial approaches were too divergent. In the few instances where we had existing businesses where we couldn't sufficiently integrate new employees, we sold these businesses. Moreover, I cannot think of any circumstances where we could contemplate a hostile takeover. As you can see, the most important issue is to ensure that people will work together, and we have had an extremely good record of blending cultures in our past acquisitions. We have integrated strong management teams so we now have multicultural abilities in our management teams. The heads of technology and our credit card services come from Household, our head of asset management come from CCF and so on; there are many other examples of similar developments elsewhere. There is no barrier to individual success for people coming from the management of acquired companies: they enter as valuable constituents of our 'talent pool.'

Do you have any program internally at HSBC to help managers of acquired companies adjust to the realities of working for a global bank when their former concerns may have been primarily domestic?

DJF: Absolutely. One of the most important things we do after an acquisition is to bring people to London where they are able to meet our senior staff. People from other organisations often have had never previously been exposed to such an exchange. They are additionally exposed to other global operations through videoconferencing and face-to-face meetings. So, this type of program immediately brings them within our organisational structure, providing valuable relationships that will help them execute their various business needs.

At HSBC, we like diversity. Everybody is different, and we take care to emphasise that this is important; everybody contributes their skills to the benefit of the greater company – something we call 'collective management.'

You previously mentioned technology and the Internet. HSBC's Internet clientele presently exceeds 11 million. What role does the Internet play in supporting "Managing for Growth"?

DJF: Five or six years ago, it was imperative to develop bespoke Internet strategies. Now, the Internet is primarily taken for granted as just another distribution channel. Having said that, I think the remaining challenge for all of us is to find ways to make better use of how customers are adapting to new Internet services and devices. Internet banking, for instance, is now well established because its services are so expansive: you can transact and easily have access to your records (without putting them in shoe-boxes under your bed). The challenge is to get customers comfortable enough with these online processes, so that they begin to use them more frequently. At the moment, many of our customers seek information on the Internet, but prefer to transact in person. This is fine for higher value products, but it is also costly for routine matters and we need to determine how to persuade people to migrate from information seeking to *de facto* transacting.

From our perspective, the most interesting segment is probably the small business one because these customers have multiple needs – for example insurance, foreign exchange, pensions as well as banking – that can be greatly facilitated by structuring them on one screen. They may be too small to have a direct relationship with a dedicated service team but virtual relationships are potentially beneficial as well – once online, they can be guided about how, and when they need to think about fulfilling various financial needs.

Do you think technology facilitates, or complicates the development of a global business?

DJF: I think it is definitely a facilitator. Many businesses can now seize opportunities across borders in ways that were impossible before, and technology is a gateway towards financing such transactions. For example, one of the synergies HSBC benefited from in its acquisition of Household was with eBay, the largest intermediary of pre owned vehicles in America. eBay chose Household as its partner in automobile financing because of the combination of Household's skills in underwriting and the power of our global franchise. They wanted to unroll the eBay car model globally, and they wanted a banking partner that could extend these capabilities worldwide.

Just a few words about regulation. You have been quoted as saying that HSBC would be among the first bank to accept IAS 39 and that you want to be at the forefront of both global accounting standardisation and global regulation. In May 2004, Sir John Bond complained about excessive regulation and its subsequent costs – according to him, these amounted to $400 million per year for HSBC.[5] As HSBC operates in 78 countries and territories, how do you view recent regulatory changes and how does it interfere with HSBC's global strategy?

DJF: One of the reasons we believe in international standards is that we prefer to do things once, and not to adhere to multiple accounting regimes, which inherently forces us to explain why numbers in one country are not equal to those elsewhere. It would also be nice to be able to compare American banks with French or British ones, without having to adjust for so many different accounting rules. So, establishing a universal accounting language would be a positive development.

Regulation is another problem. Clearly, when you are entrusted with people's savings, there has to be regulation that protects that trust. We do not have any problem with regulations that require specific governance features, or checks and balances between executive and independent directors, but we are finding that the extent and often-uncoordinated expansion in regulatory requirements is taking a toll on our bottom line.

Services sold in an open architecture environment also need to abide by similar terms and conditions, and I think there is some way to go here; a greater

5. "Excessive regulation is better than another banking scandal", *The Banker*, July 2, 2004, p. 8.

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degree of trust still needs to be established. Pricing has a general obligation to be fair and clear, two very important issues for us.

We previously mentioned standardisation and regulation. There is always a debate as to whether it is better to have more, or less, severe regulation. Here in the UK, you have been appointed by the Financial Reporting Council to lead the review of the Turnbull guidance on internal control and risk management.[6] Will not any proposed change add to the regulatory burden? How do you plan to balance costs and benefits of changes?

DJF: For regulation to be effective, it has to promote the right behaviour, the right way of operating, without destroying entrepreneurial culture. One of the dangers of excess regulation is that managers may become afraid to make risky decisions. So, I think you may find that 'defensive' management within public companies is a direct consequence of ever-stricter regulations, and one of the reasons why increasing numbers of investors are turning to private equity for higher returns. In part, this indicates that our investment markets are efficient; higher levels of risk are acceptable to investors, but only if the expected returns are commensurate.

If one looks at the sorts of scandals that prompted regulations like Sarbanes-Oxley, they were primarily fraud, not bad managerial decisions. No governance framework can protect from criminality; it can only reinforce a mechanism to prosecute them. The challenge is to achieve the right balance, and to ensure that public markets are as transparent as possible and that the environment permits proper risk-taking. In essence, there needs to be a safe harbour for properly made decisions, but we need to recognise in advance that these will not always work out – this is not governance failure it is business risk and without risk taking there is no reward.

In the long run, experience breeds success, but in gaining experience, so is one prone to make mistakes. The key issue, of course, is to learn and to grow from these mistakes. Ultimately, the best managers are those who have been in trouble before and know what it takes to avoid being there again.

6. Published in 1999, the Turnbull guidance sets out best practices on internal control for UK listed companies. It is used to demonstrate compliance with the internal control requirements of the Combined Code on Corporate Governance. The Financial Reporting Council published its report on October 13, 2005. The few changes made to the original code focus notably on information on risk management processes and on the need to review internal control systems (editor's note).

Lucio Loubet

9ème série de la Métamorphose n° 42
(100 x 81 cm)