

Leading through the tough times

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Good afternoon and thank you for the warm welcome. It is a real honour to be here.

The Chamber has been an important part of the Australian business scene for 47 years now. But as an American-born, Australian businessman it holds special significance for me.

Now I don't want to scare you with coincidences but let me just point out that 47 years ago almost to the day Hawthorn won the VFL Grand Final and Australia was in a short lived recession. It was the first grand final the Hawks had ever won and broke a 36 year drought.

So compared to long-term Hawthorn supporters I guess I feel a bit humbled trying to give you advice about leadership in tough times.

What I'd like to do today is share with you the lessons I've learnt about managing in tough times, as someone who has been fortunate enough to watch some great leaders in action.

And from what many of you have said to me before we sat down, I know you'd like me to give you our views on what's going on in the financial world and how that might play out in Australia over the next year or two.

You know, these two points—the fundamental changes going on in the world today and leadership in tough times—are of course intertwined.

As we know, a business leader's management style has profound implications for his or her firm's ability to create and sustain a productive organisational culture. But the right approach to this very much depends on the context in which we are leading.

Let me give you an example...

Henry Ford saw the need for affordable transport. Cars before his time were luxury items built by coach-builders to individual order. Ford took the idea of assembly line production and coupled it with the idea of paying his workers a wage that allowed them to afford a car. This worked so well that by 1918 half the cars in America were Model T Fords.

Henry Ford's success was related to his dogmatic and hard-nosed management style. Like many leaders he believed his most significant adviser should be himself—and for a time, he was right. But as a result he missed the transformational changes that were happening within the automobile industry and the buying public, which allowed Alfred Sloan's General Motors, and many others to rise.

The point is that Henry Ford failed to adjust his leadership style during pivotal moments in his company's history.

As leaders we need to see the context we are operating in and "trim the sails" to the strength and direction of the wind. The Ford story also shows the dangers of the model of the traditional leader. That is, the leader who is all powerful, all knowing and leading from the front.

Nelson Mandela spent 27 years of his life in prison yet transformed a whole country and provided inspiration for millions of people. Mandela talks about leading from behind. He says a leader creates a context in which other people are willing and able to lead. He describes the leader as more of a coach and an architect.

Now I don't think any of us can compare what we are going through with the times Nelson Mandela faced. But the point I'm leading to is we are also at one of those pivotal moments in history.

In times like this the focus on you as the leader becomes intense. People are nervous and anxious. They are looking to you to know whether to panic or stay focused.

And in the current environment, people are looking to us with good reason.

Last week, we saw the biggest bank failure in US history. Washington Mutual was no fly-by-night organisation. It was 119 years old and was probably America's biggest real estate lender, after the collapse of Countrywide Credit earlier in the year.

US regulators simply moved in and sold it to JP Morgan Chase.

Washington Mutual is only the latest victim of a credit crunch that has seen the nationalisation of the two largest mortgage companies and the world's largest insurance company; the conversion of the two surviving Wall Street Investment Banks— Goldman Sachs and Morgan Stanley—into traditional regulated Bank Holding companies; and a moratorium on short selling in major stock markets around the world.

All this led to the proposed \$700 billion fund to bail out troubled financial firms, which hopefully will be salvaged in the next couple of days. And then this week we also saw Citigroup buy

Wachovia, the fourth largest banking group in the United States and one of the most respected retail banks in the country.

Total losses from the financial crisis that erupted in the United States in August last year are now likely to top \$1.5 trillion. And banks have lost so much faith in each other that the interest rate spread banks are seeking to lend to each other is at a near all time high.

Now all of these issues had their conception in one basic idea—that economic outcomes can depend more and more on what happens in asset markets and less on what happens in the real side of the economy, such as in the manufacturing and labour markets.

Not only has the financial side of the economy become bigger, leverage—which is the extent to which debt is used to buy assets—has increased.

So right now banks, companies, and people are de-leveraging. De-leveraging simply means they are doing the opposite of borrowing—they are paying down debt and spending less.

In the United States this means the car sales are at 1993 levels. Housing prices on average are down 16% for the year; and the share market is down 18 per cent in the US and 25 per cent in Australia since the beginning of the year.

In Australia though, unlike the US, I'm pleased to say we have a net housing shortage and so house prices have been more stable, although we have seen modest declines in selected areas.

At the same time there is an equally significant change going on in the emerging economies.

The industrialisation and urbanisation of countries like China, India and Brazil means we are seeing a radical shift in the economic map of the world.

For instance the countries with the largest current account balances include China, Saudi Arabia and Russia. The countries with the largest reserves of foreign exchange and gold are China, Japan, Russia, India and Taiwan.

From an Australian perspective this raises two big questions:

- Can the growth we are seeing from countries like China continue, and
- Isn't the world so interconnected that if the US is in recession then all other countries will have to follow?

The good news is that over 90 per cent of China's production is consumed domestically, as hundreds of millions of people look to escape poverty and join the middle class.

So while we do expect growth in the emerging economies to come off, we expect growth in Asian economies remain at around 7 percent in 2008, down from 8 percent in last year.

In China, growth will likely slow from 12 percent in 2007 to around 10 percent in 2008-09. But I think you would agree that 10 per cent growth in one of the world's largest economies is none too shabby.

This puts Australia in a good position to weather the global financial storm, because China's growth depends on the raw materials and energy resources Australia is a world leader in supplying.

In fact, the biggest 'swing factor' for Australia is the extent to which we can address the capacity constraints we face in meeting the demand from Asia and the shifting demands of our own ageing population.

If we can address these constraints—in labour, infrastructure, and housing—then we will likely avoid the scale and extent of recession in Australia that we will see in the US and Europe.

Put another way, the challenge for Australia is to drive growth while driving down costs. Economists call this productivity.

And in Australia we haven't been doing a good job on this recently.

The latest productivity table shows that Australia has dropped from the 5th most globally competitive nation in 2001 to number 19 this year.

Despite this, Australia has another thing going for it.

Our banking sector is in very sound shape—probably the best of any OECD country.

All four big banks are profitable, well capitalised, well regulated, and individuals and businesses have voted with their wallets by putting billions of dollars of cash into the banks in short and longer term deposits.

Each of the four majors is AA- rated—four of just 18 left in the world with a AA rating.

It reminds me of a quote from a former ANZ chief executive who liked to say, "there is only one thing worse than a profitable bank, and that's an unprofitable bank". It might not be a popular

sentiment in articles about bank profits, but if you think I'm just talking my own book ask the customers and shareholders of Washington Mutual or Northern Rock in the U.K.

So now hopefully I've set out our context: It's a time of profound change in our markets.

What about the question of leading in tough times?

When things are going well, every boss looks like a great leader and a genius.

But as Warren Buffet said recently, "it's only when the tide goes out [that] you discover who's been swimming naked" and right now it looks like there's been a lot of skinny dipping going on.

So the question is: do we need a new kind of leader in these tough times?

I don't think so. If our boat is sound, we simply need to trim the sails to match the conditions.

At a pivotal time like this you need an honest reassessment of how you lead. And honest self-assessment takes guts.

It's no longer enough to just rely on your authority to drive through results. In a crisis, hard driving, take-no-prisoners management works—and sometimes it's essential—but it's a short-term strategy at best.

Leadership in difficult times is about framing or re-framing the challenges that an organisation faces so that its people can understand how they should respond both practically and emotionally to those challenges.

So as leaders, how can we put this idea of re-framing into practice?

As it happens, the question of how to lead effectively is one of the oldest in history.

Aristotle—the Greek philosopher—said successful leadership had three elements:

The first was 'Logos': or, logic. How you present the truth, logic and reasons for action about the situation you face.

The second element was 'Ethos': This is about your personal credibility. Your character, reputation, and knowledge.

And the third element was 'Pathos': This is about emotion. Your ability to connect with your people on an emotional level, by appealing to their personal values, fears, or aspirations

Put another way, leadership in difficult times is about being logical, credible, and human.

Let me talk about each of these in turn.

Let's start with logos, your ability to reason. First and foremost you need face the brutal reality of your situation. You need to look at the environment as it is, not as it was yesterday, as you wish it were, or how it might be around the corner.

And human beings aren't very good at this. As Nicholas Taleb points out in his book 'The Black Swan', we are wired to believe that tomorrow will be like yesterday and we ignore the possibility of a catastrophically different future.

Wall Street, and dare I say a few streets here in Australia, are littered with highly educated business people who couldn't contemplate the possibility of such a radical decline in world markets, even after the shocks of late last year.

The importance of logic is also about being able to reframe the facts in a way that identifies opportunities.

Take Coke, as an example. In the 80s Coca Cola was struggling. Cola drinks were at a peak of popularity and the big players were battling it out for tiny increments in market share. Talk was that Coke wouldn't make it—impossible to imagine now. Then Roberto Goizueta took over at the helm and switched the company's perspective.

He said that Coke wasn't fighting for a greater share of the cola market—they were fighting for a greater share of the stomach!

Suddenly it wasn't just other cola brands they were competing with, or even other fizzy drinks it was water, milk, coffee whatever people drank. All of a sudden Coke's opportunity grew enormously, and so did their creativity, their determination and their growth.

In difficult times, people tend to look at last year's results and say "gee, that is going to be really hard to repeat." So instead of focusing on what you've got, as leaders you should focus on what you haven't got.

ANZ for example, has about 13% market share in retail banking in Australia, and we've been growing rapidly—double digits for the last four years. Our people often ask how we can keep up the pace, and I simply say, well 13% share means 87% of Australians don't bank with us yet—go get 'em.

(And if you're one of those 87%, please see me afterwards!)

Now, to ethos, your credibility and character. Of course, 'character' is really leadership 101 in any environment. But there's something about difficult times that sends people looking for someone they can trust.

Part of building trust is of course is about being honest with people, no matter how painful the truth, and about following through on what you promise to do.

But when it comes to character, particularly in the current context, I think of examples like Franklin Roosevelt.

Roosevelt had had a promising political career until he was struck down by polio in 1921. Doctors told him he'd never walk again. But he was determined to prove them wrong, and spent several years in private learning how to stand upright with the help of leg braces, a cane, and "casually" leaning on the arms of his sons.

Then at the 1928 Democratic convention he rose from the floor to speak and walked to the lectern. You could have heard a pin drop. Had he fallen, his career would have been over. But he made it. And so impressed with his tenacity—with his character—was the crowd that he was resoundingly voted in as the party's candidate for Vice President.

He went on to be elected President in 1932 of course and was re-elected three times thereafter, so popular was he as a leader.

That leads me to Aristotle's final element of leadership, pathos.

This is about your ability to appeal to people on an emotional level, to motivate them to persevere through difficulty, to continue to work hard in pursuit of the organisation's overall mission.

If Aristotle worked at Harvard Business School, he'd call this "engagement."

In difficult times, it can be too easy to discard the elements of good leadership that create engagement. And yet it is precisely in difficult times that engagement is so important.

I think building engagement has several elements to it.

First, it's about being absolutely clear with people what's expected of them, so they know what they need to do to be successful.

Secondly, it's about removing barriers to their success by giving them the resources they need, reducing bureaucracy, and making sure that your processes and the way you measure and reward success lines up with what you're asking them to do.

So far, so obvious.

But there are two other important elements to engagement in difficult times.

The first is to provide your people with the “why?”. Notwithstanding the “Mission & Values Statements” in our Annual Reports, few if any of our people actually get out of bed each morning in order to generate superior returns for shareholders.

Increasingly, people want to feel that their hard work matters, as part of something bigger than themselves. And if you want to keep people motivated in difficult times, it is all the more important as a leader that you provide that frame of reference for them.

For example, at ANZ the picture I’ve tried to paint for our people is that we are building the most convenient bank in Australia, and will do whatever it takes to make that true. So their job is save customers time, take the fear out of banking, and earn our customers’ trust.

The final aspect of engagement is about human connection.

Great leaders make sure that people feel that they matter as an individual, not just as a member of the team.

In other words, sweat the small stuff. Provide and encourage flexible working arrangements. Remember names. A good friend of mine once told me, “Tell them how much you care before you tell them how much you know.” In times of difficulty, there is little better advice I can think of.

So that’s my take on Aristotle’s view—logos, ethos, pathos. But what can you do with it tomorrow?

Start by setting up a leadership team meeting to “face the brutal reality”—work out where you really stand, and then try to crystallise your vision and clear priorities around it.

As part of this, run a future-proofing session. What is the absolute worst thing that could happen in our industry, and what we can we do NOW to protect ourselves from it?

(And by the way, your bank can be helpful in this!)

The one regret retiring executives always say is “I wish I’d moved faster on my people decisions”. Make sure you have the right people in the right roles. If you don’t, make the tough decisions, now.

Be visible to your team and the business—communicate more than ever, and be seen—your physical presence will go a long way to reassuring your people that you can get through this period of difficulty. You can't connect with people if you're not there.

And finally, don't ignore your own family and personal needs. Remember that your self-worth is not a function of your business success. And this is just as important to remember in difficult times as in good times.

You've been very patient, so let me wrap up.

Despite the difficult times we face, I view the present circumstances as an opportunity.

It is by and large in the difficult times that we learn and that our wisdom is forged. Good times are easy. We will look back on this period for the rest of our lives and say, I was there. What an experience!

And so as long as we face difficult times, I think Aristotle's wisdom holds true.

In words he might have used today: I believe successful leadership starts with a commitment to being logical, being credible, and being human.

Good luck and thank you.