

Sustaining growth and a strategic focus on people and diversity

John McFarlane
Chief Executive Officer
ANZ

- It's a pleasure to be invited here to speak at the Australian Institute of Company Directors and to be part of the Equal Opportunity for Women Agency's activities today to highlight the role of women in the workplace.
- Today I want to focus on a subject that I'm passionate about – sustainable growth.
- By sustainable growth I mean building for tomorrow and bringing greater balance to the agenda of companies.
- It is no longer sufficient to have an agenda solely around shareholder value. Companies today need to create a much more balanced agenda around five stakeholder groups: community; customers; our people; government and regulators; and performance over the medium term for shareholders.
- It shouldn't be a choice between shareholder value and sustainability – maximum, long term shareholder value comes from sustainability.
- Today, as we mark the launch of the 2006 EOWA Australian Women in Leadership Census, I'm going to focus on the people part of the balanced agenda. But first let's talk about growth.

SUSTAINING GROWTH OVER THE LONG TERM

- Over the last decade Australia has been one of world's best performing economies, averaging growth of over 3.2% over the last decade. (US 3.4%; EU 2.3%.)
- Of course, one of the problems about growth is sustaining it over long periods.

- Sustained economic growth isn't easy, and much of Australia's recent economic success is owed to the economic reforms of the late 80s and early 90s.
- Similarly, there is a simple lesson of history for companies that don't grow.
- In Australia, of the top 20 companies in 1980, only five are still in the top 20 (I'm pleased to say that ANZ is one of them). There's a similar trend in the UK and the United States.
- This tells us that there is something unsustainable about corporations.

SHORT TERMISM

- Equity markets that are focussed on the need for companies to produce short-term results, often at the expense of the need to invest for growth in the longer term.
- There's also greater media and investor scrutiny; increased disclosure and transparency requirements; the move to greater regulation as a result of past failures.
- So while there is a need to produce short-term results, the prime role of a CEO is to produce long-term value for shareholders, while producing acceptable short-term results.
- 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 radical way forward, a paradigm shift in our conception of what a company is and how it behaves.

- ANZ has had a four stage process to what I hope is long term, sustainable growth:
 - cost reduction
 - developing the platform for growth
 - excess revenue growth
 - building a very different bank.

THE CHALLENGE TO BE A VERY DIFFERENT BANK

- One of the problems that Australian banks face is that people believe they're all the same.
- At ANZ we've worked on differentiating ourselves in the eyes of our customers, our people, the community and our shareholders, to give them the evidence that ANZ is different in a lot of tangible ways. But externally, most people still think that all the banks are the same.
- The bank that will prosper over the longer term will be the one that can give a compelling answer to the questions:
 - why should customers bank with us?
 - why should our people work here and not somewhere else?
 - why should the community trust and engage with us?
 - why should shareholders invest in us?
- Now, what do we mean by very different?
- We want customers to deal with us because we provide them with something special that no one else provides, in ways that are important to them.
- And importantly, we want people to work at ANZ because we offer an environment and opportunities not found elsewhere.

- We want to have a level of engagement with the community that is radically different and suited to the business that we're in – which is why we focus on financial literacy.
- We want our shareholders to invest with us because we outperform financially and our strategy and performance is transparent.

THE IMPORTANCE OF PEOPLE TO GROWTH

- It's people who serve customers and create new ideas that make companies great. Put simply, you need the right people, doing the right things, and doing things right.
- At ANZ we have more than 30,000 staff in 23 countries serving more than 5 million customers.
- No 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 there are very direct links between increases in employee engagement and sustained financial performance.

BREAKOUT

- In 2000 ANZ began a cultural development program as part of our strategy Breakout and be different.
- Back then, it seemed that everyone wanted to have a go at banks. ANZ's business performance was poor and it's unsurprising that employee satisfaction was very low.
- The purpose was simple. 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.
- Over 26,000 people within ANZ have now been through the Breakout program and progress has been stunning.
- In late 2004 we launched our first group-wide 'Staff Engagement Survey', administered by Hewitt Associates. According to the latest survey findings, 60% of our people are fully engaged, steady compared to our last survey in 2004.
- 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 ROLE OF WOMEN

- But despite these results, and despite the very significant improvement in ANZ's financial results since we started our focus on people, there is an area that disappoints and frustrates me. That is the role of women at ANZ.
- This issue is not unique to ANZ though. It is also highlighted in today's EOWA Census which shows that:
 - Australia's top 200 companies have made little progress in increasing the numbers of women in their boardrooms
 - the number of female CEOs has not increased since 2003
 - there has been only incremental improvement in the number of women executive managers in the ASX 200 which has increased slightly to 12.0% from 11.4% in 2004.
- And so we still have a long way to go in Australia.
- At ANZ, significant progress has been made over the last few years but I'm not satisfied with present levels of female representation amongst executive management at ANZ.

- 60% of our staff are women. At the senior manager level this drops to 27%, at the executive level this drops to 22%, and at senior executive level it's 17%.
- More women in executive management makes business sense. Organisations that lead their sector as an employer of choice for women have access to a larger talent pool, and are better placed to understand and respond to the needs of customers and communities.
- This is an issue that's actively occupied the most senior minds at ANZ. Our Management Board grapples with it, and earlier this year our top 100 executives spent several hours together, identifying issues and assumptions that are getting in the way of women's advancement.
- If there is an easy answer to this, I hope someone here can tell me.
- I find it frustrating to constantly receive many views on what the problem is, but these are rarely accompanied by workable solutions.
- It also strikes me that we have few really honest conversations about gender issues in the workplace – because all of us, men and women, bring our own biases to the table.
- For my own part, I've come to the view that the most important thing to do is simply to appoint more women.

GENDER TARGETS

- We have gone against conventional wisdom and set specific targets. We want to see women in 25% of Senior Executives roles by 2008 and in 50% of our mid-level manager roles. And we're on track to achieve our targets.
- Appointments of women to roles will continue to be based on merit. But we set targets for every other area of our business, and I don't see why this should be any different. And we are publicly reporting on our progress as part of our annual sustainability report.

- So there is a synergy with what EOWA has created with its Census. And as EOWA says, and as Fiona Krautil regularly reminds me, what gets measured gets managed.
- There are three key challenges for ANZ, as we seek to manage the targets we've put in place.
- We need to see more women in customer facing and profit and loss roles. Most senior leaders in finance have this experience, and those who lack it, and aspire to a greater role, are disadvantaged.
- The second challenge is, in many jobs women face substantial penalties in terms of pay and progression for taking time out or reducing their hours because they're mothers. We've made an effort to create workplace policies and facilities that are more attractive to women in their childbearing years.
 - We led the major banks in doubling paid parental leave from 6 to 12 weeks regardless of length of service.
 - We established a partnership with ABC Childcare to provide child care centres.
 - We've introduced flexible leave options: volunteer leave, lifestyle leave, and career breaks up to 5 years.
- Companies need to show evidence of this kind that they are providing an environment that supports women, in this instance in their childbearing years. Reputation – or being an employer of choice for women, to use EOWA's term – is a powerful way to attract more female employees at all levels.
- The third key challenge is to make the same sort of cultural change we did with Breakout to challenge assumptions about the type and seniority of jobs women can do.

- Among the initiatives I am personally championing are:
 - Ensuring there is at least one woman on shortlists for all management positions and above. There's certainly been much debate on this at ANZ, but we now know that 68% of the time when a woman has been short-listed, she will emerge as the best candidate and get the job.
 - We're also making sure that where possible, there is a woman on the selection panel.
 - We've had tough discussions with our executive recruiters, and made it clear to them that we want a greater effort to identify excellent female candidates.
 - We've ensured we have a robust process to identify high potential female employees, through the Emerging Leader Radar (for managers) and the Leadership, Evaluation, Assessment and Development program for high potential executives.
 - We've revamped our Diversity Council. It's now led by a member of the Management Board, and has a significant budget and much greater staff involvement. It will be, I hope, a catalyst for more new ideas and approaches.
 - The board receives detailed quarterly reports that track our progress in creating greater female representation.
 - We're ensuring our graduate intake is more evenly split between males and females.
- I don't stand here today with all the answers, but I do have confidence that ANZ can keep changing how its culture affects and supports women. With Breakout, we've made major, positive improvement to our culture before. We can do it again.

RECOGNISING EOWA'S ROLE

- I congratulate EOWA for again holding up a mirror to Australian business, and comparing our performance to international best practice. The Census is a valuable benchmarking exercise that no one else provides. It's a reminder of what we're doing well and what we can improve.

- We need to hear this, even if we don't like it. Thank you to Anna McPhee and her team for once again putting us all on notice.
- And lastly a challenge: I said earlier there aren't enough honest conversations about why there aren't more women at senior levels in business. Let's use the panel session to have an honest discussion.
- I'm interested in your views and those of the other panellists.