

**EUROPEAN AUSTRALIAN BUSINESS COUNCIL 'DIVERSITY WORKS!' LUNCH
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**Presentation by National Australia Bank
Managing Director and CEO, Mr John Stewart**

(This is an edited version of a keynote address delivered by Mr Stewart.)

JOHN STEWART – NATIONAL AUSTRALIA BANK:

As a major sponsor of this organisation and a business that operates both in Europe and Australia, it's a great pleasure and an honour indeed to get the opportunity to speak to you this afternoon. But you must think that with all of the problems that were so well publicised last year about National Australia Bank, why would diversity be important on our radar screen?

And if you think that you'd be wrong ... let me explain. The roasting, or the ritual killing almost, of National Australia Bank last year in the press was not about foreign exchange trading. I know we managed to lose \$360 million, a lot of money, but it's not fatal to a bank of our size. And it wasn't about a Board dispute either. It was that people were venting their frustration against a company that – to put it quite frankly – had let them down. And we, like all companies have four stakeholders: we have our shareholders, we have our customers, we have our own staff, and we have the community.

Now, before forex happened we managed to have the worst total shareholder return for the last five years of any of the Australian banks. So the shareholders were not over the moon.

Our customer satisfaction surveys were nothing to be proud of, and even our own staff surveys were not heartening. Our own staff engagement was low, and if you wonder what the community thought, well, you just had to read the newspapers because you would not be reading story after story, day after day, if this was one of the most admired companies in Australia.

And basically what has happened is that a company that should be a national icon has actually lost the respect of its various stakeholders. And these issues were about the *culture* of the organisation. That's where diversity comes in because even in the PricewaterhouseCoopers report into the National Australia Bank they mentioned three things regarding the FX scandal.

One was that we had a culture that was process orientated - it put form before the substance of the issue. Secondly, we didn't have accountability within the organisation. And thirdly, the most worrying of all was that it was a good news culture – we heard what we wanted to hear and people didn't tell us bad news.

Now, that's the background for now, but let me just paint another part of the background. The world is changing around us. It's not enough anymore for a business like mine to have financial credibility (and you've got to have financial credibility - you've got to hit your numbers, you've got to keep your shareholders happy). But now you need ethical credibility as well and people will judge you on that ethical credibility.

Let me give you an example. Everyone saw a few years ago the collapse of Enron. And look at what Enron has done for corporate governance. It's given us all the joys of Sarbane-Oxley and I'm sure all of you just love abiding by that.

Look at Merck. Merck is a great pharmaceutical company. This is a company that for many years was winning, and was very close to being the most admired company in the United States. Now, Merck had brought out a drug that had to be withdrawn recently and questions have started to be asked about whether or not it was withdrawn quickly enough, or whether or not the clinical trials were right. And for not one minute am I saying Merck's not a great company – it's a terrific company – but it is struggling now because of these ethical questions that have been asked about it.

Even in my industry, look at Citibank, the biggest bank in the world. Look at the problems Citibank had in New York a couple of years ago with the Attorney General, Eliot Spitzer, when they ended up with a \$1 billion fight. Look at the problems they had in Japan where they lost their private banking licence. Was it just recently I think the Federal Reserve have said Citibank can't make any big acquisitions until they get their controls in order.

Now, this is a fantastic bank but these things are changing around us. And the rewards for getting ethical credibility right are very high, but let me tell you, the price for getting it wrong is huge.

Whatever happened to Arthur Andersen? It was one of the biggest accountancy firms in the world. It got associated with Enron; where's it gone? It's disappeared.

If you look at Worldcom, former CEO Bernie Ebbers has been convicted of securities fraud and faces many years in jail. This is serious stuff. This is not only about abiding by the law, this is about what the public expect of organisations, of where they're going to put their trust.

So against that background, let me talk about diversity and giving you just some personal thoughts about, if you like, the story so far.

When I look around the world I see the US, in the main, certainly for the last fifty years, had a very wide-ranging, very far-reaching diversity program, but they tended to focus a lot on race and the issues with race.

From my own background in the UK, there are programs on gender, programs on disability, programs on race, but in the main, it tended to be gender-focused.

Now, what I've seen in Australia so far mirrors more the UK and Europe than it does the US; although there are issues around, such as the Aboriginal issues and also the issues of work-life balance which are coming up and becoming stronger.

But one of the problems that I've seen over the years – and I think you may have seen as well – is that people get hung up on numerical goals; they start to try to get more women at a certain age and at certain positions; they try to get more people with a disability, or whatever.

And again, if you look back in the United States, the people who were winning the awards just a few years ago have now got class actions against them for almost exactly the same issues. And what it was, really, was they were chasing numerical goals as opposed to looking at the structural barriers that are actually causing the problem. So the problem still remains, or they wouldn't have the class actions.

In the National, we've made progress. We've got a pretty good record. We've removed a lot of the structural barriers that stop women getting on, that help people with disabilities get on, that start to get variety in terms of ethnic background. We've even won some best practice programs, particularly in disability, indigenous employment and in the ageless work force initiative, which is basically about people re-entering the work force who are more mature-age, shall we say.

But ... and there has been success there, because in 2000 we had twelve per cent female senior management, and by 2004 that was twenty-two per cent. So that had almost doubled. One in ten of our work force speak a second language and, of course, as you can gather, English is not my first language.

Someone once said to me, what's the difference between the Italian mafia and the Scottish mafia? And the answer was, the Italian mafia makes you an offer you can't refuse, but the Scottish mafia makes you an offer you can't understand.

So, well, having said what the National has done, and against the background that I'm trying to explain, quite frankly, it's not enough. We need to do more because these policies, these procedures, are lovely, they're shiny, they look great but it doesn't mean anything will change. I mean, we have one of the best job share

policies, I would say, in Australia. Hardly anyone uses it. Is that a success because the policy is there?

We have terrific opportunities for people to work part time. But how many males who work part time? If we look, our leaders are still coming from the same small pool of people they've always come from, they're following the same well-trodden career path that people have gone, because we've become stereotyped.

Women, for example. I mentioned that we have increased the number of women in senior management, but in the main, they're in functional-type jobs. They're not running the big revenue generators. Revenue generators are what real men – if you'll excuse the expression – that's what real men do in the organisation, and that's what makes you a senior executive.

So there's a lot more that has to be done, but we have to have a different mindset. We have to think through and come up with a different approach to diversity.

Now, we're going to keep still working through the structural barriers. That stuff doesn't go away but it's not enough for it just to be about numbers and about policies. What we've got to do is create a meritocracy where we use the cultural differences of all of the people that work for us, and we use that to the benefit of the customers and to the community that we work in, that we live in, so that we get the best from all of our staff, not just the best from clones of John Stewart or anyone else.

And then the National, because of the reasons that I explained at the beginning, is undergoing a much broader cultural change. But believe me, it is the cornerstone of that cultural change, not an afterthought because it has to be; because, we haven't encouraged different voices.

You'll remember me saying earlier that we had a good news culture, so what we had was a culture where we weren't listening. We weren't prepared to listen to the

differences. Now, that's not just differences from someone's background, this is differences of opinion. You know, maybe they just don't agree that we're doing the right thing.

People basically were afraid to speak because it wasn't done; it wasn't clever to speak up. And when you have a command and control culture, it takes time to change. You don't change that overnight - it's not possible. And one of the initiatives we've done in order to change is to produce a set of corporate principles. You'll all be familiar with corporate values and corporate principles –in most companies, what happens with those is you produce them and you put them on the shelf and no-one ever reads them.

The one thing you've got to do is you've got to police them. People do what you inspect not what you expect, so you've got to make sure that you get them there and you make sure people are obeying them, and the first one of those principles for us happens to be 'conduct your business in an open and honest way'. So we have 'proof points' for those to check that's happening, and we have methods throughout our business to check that the business is behaving that way.

Now, this is to try to allow us to tap into the forty thousand people that I have working globally. I want to get them to start speaking to me, not just listening to me, but speaking back, telling me what they think, telling me what their opinions about the customers are, the businesses, and so on, because if we can do that, if we can listen more, the business will improve.

What we need is a free exchange of information, and we're trying lots of methods to get it. Not only do we have the usual surveys that I think all of you have with your employees. We literally have weekly pulse checks where we just phone people at random to ask them how they feel, what's going on, what their thoughts are.

Now, you may think, John, this is lovely, but, what's the commercial benefit of it? We did some market research recently about products in the Australian bank, and

the results astounded me. I would never in a million years have suspected that what customers are really interested in (and these are our mainstream customers I basically want to sell products to) is what we are doing for special interest groups.

And if they thought we were doing things right for special interest groups, people less fortunate than them, then that would increase our reputation with them. If it increases our reputation, the loyalty factor goes up, and guess what, they buy more products.

Let me give you an example. We brought out some cheque accounts last year. They were very simple - you pay five dollars, you get everything's rolled into it. Very simple. Eight percent of our customers took out that cheque account. But when we did the research afterwards, fifty percent of our customers thought it was great, and thought it was aimed at special interest groups and that it was the right thing to be doing.

And therefore, what we learned, what our own market research told us was that the value to our reputation was a multiple of the eight per cent that actually took it up. Simply because we've listened to the customers about the design of it, and they were interested that we were looking after the various special interest groups in society.

So let me conclude, because there are some big issues in this country. We have a skills shortage that was mentioned earlier. If you also look at the labour force dynamics, I mean, that's really interesting. Since the '70s until about the present time I guess, female participation in the workforce has gone up from about forty-four per cent to fifty-five per cent.

Even more interesting though is that the number of part-time workers as a percentage of the total workforce has gone up from fifteen to thirty per cent. But when you dig a bit deeper, and you look at female participation for full-time workers,

it's actually gone down. What's happened is that female part-time has gone from a stunning thirty-three to forty-five per cent.

We're pretty near full employment - we're at about five per cent unemployment and so there are five per cent of people who either don't want to work or can't work. So we're pretty near full employment.

But what this is telling us is that the people want to work differently. They want different hours, they don't want the same size fits all approach. And governments, quite rightly I think, and the Australian Government is no different, expect employers like us to realise that these workforce dynamics are going on, and that we need to change and that we have to listen.

And so I guess diversity, from my experience, will work if the CEO and the top executives of the company really believe it, and it's not going to work if you just have a shiny new policy. You've got to do the basics, you've got to have targeted recruitment, training, mentoring, and of course this has got to be part of your performance management.

Now, in the past, the National had a very strong culture. And it's fair to say, you left your differences and your diversity at the door when you came to work. Because this is how things were done in the National – there was a way of doing things, and really, we didn't need your ideas, thanks very much. That strong culture eventually turns into the problem, even though for a great many years the bank was very successful because of that strong culture.

But what we have to do now in terms of my bank, in terms of my shop, is it's got to be part of a much wider cultural change. We have to have regard for what's going on in the world about ethical credibility, and we have to look at diversity in a much more holistic way than we've done in the past. This is really the 'diversity of inclusion'. This isn't just gender, this isn't just race, this isn't just about people with a disability. This is actually looking at what makes people different and how they think

differently and how they actually behave. In the future we want people, all of our own staff to bring their whole self to work. Not just the bit that we wanted. So, we want them to bring all of their experiences to work.

If we're successful at the National, not only will we get some of the things that we normally measure right, such as the things that I mentioned earlier like gender and racial diversity, we'll actually manage to achieve diversity of opinions and perspectives. I think commercially the company will be much the richer for it.

Thank you.