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Speech Notes

David Liddy

Managing Director

Thanks Ken for inviting me along tonight.

As a banker, I often talk about numbers.

Today, speaking to a room full of accountants, auditors and taxation experts, I thought I would talk less about numbers, and more about Managing the Momentum and building a culture of high performance through significant growth, given both Bank of Queensland and Moore Stephens have experienced significant growth over the past several years.

I love your tag line “serious about success”. I will talk a little later about an equally good tag line “from good to great”.

Before I talk about how we try to achieve that at BOQ, let me take you back a few years.

When I became Managing Director of BOQ in 2001, we had one of the most identifiable brands in the state yet less than six per cent of Queenslanders actually banked with us.

Our branch network was smaller than any other bank's despite the fact we were only in Queensland.

Some would ask why would I leave a senior position in a major bank I had been with for more than 30 years for the challenges which Bank of Queensland offered in 2001.

It came down to one word – potential, and to be totally honest the opportunity to do my own thing!

Bank of Queensland had enormous untapped potential, and still does in my opinion.

After looking closely over a number of years at what had been happening in the American retail banking network, I had an idea that the bank branch was making a comeback, and that BOQ was perfectly placed to tap into the customer malaise in the banking sector.

It had a strong brand name in its home state, lacked scale and reach, but also had an old-fashioned agency model which had the potential, like all good caterpillars, to become the BOQ butterfly and the engine of our future growth.

With my team of executives we took the old agency model and turned it on its head, creating the genesis of the franchise model we see today.

We called it the Owner-Managed Branch model, or OMB, and it provided the platform for rapid expansion at a relatively low-cost to a bank that needed every cent of available capital to meet the growth forecasts we had set.

This OMB model allowed us to expand from 93 branches to the 166 Queensland branches we have today, matching it with the big four and Suncorp when it comes to branch presence in our home state.

It then allowed us to open 122 interstate branches across every Australian state and territory.

Out of almost 300 branches we now have right around the country, only 59 are corporate branches owned by the bank.

We have now converted 31 corporate branches and I believe the results speak for themselves.

So, where did all this rapid change take us?

With my eighth anniversary of joining the bank this Sunday, it seems a worthwhile time to look back and outline some of the growth we have seen in that time.

For example, in 2001 our net profit after tax was \$24 million, while in 2008 it was \$155.4 million.

In 2001 our cash earnings per share was 38.2 cents, and in 2008 it was 102.9 cents per share.

In 2001 our retail deposits totalled \$3.7 billion, and in 2008 they had risen to \$11.5 billion.

And our total assets under management have almost trebled over the same period, from \$5.2 billion to \$30.8 billion.

It's a good growth story, and one which is far from over.

The challenge, of course, in returning to the premise of today's speech, is in maintaining such growth, keeping your eye on the future prize while ensuring you are not too distracted by the day-to-day issues, and continuing to build a high performance culture.

Because this has not been evolutionary change, this has been revolutionary change.

Change to culture, change to infrastructure and change to perception.

Let me talk a little more about these three elements.

Firstly, culture.

As Indian nationalist Mahatma Ghandi said: “No culture can live if it attempts to be exclusive.”

With our culture we had to change from being a sleepy regional bank content with our lot to being a powerhouse, service-orientated sales force which could match it with the big banks on product and delivery while exceeding them on reputation and service.

And we had to bring our people with us, staff and customers.

We had to become the “other bank”, so that customers saw us with all the strengths of a bank without the weaknesses of perception which were wracking the banking industry in the late 90s and early this century.

That meant having a small bank culture but combining it with big bank products. We had to match internet and phone banking, we had to match business banking, we had to match lending and deposit products and we had to grow, quickly, while achieving these goals.

Culturally that meant we had to bring the people with us all the way, convince them that this was not just a flash in the pan strategy or a new tagline on our advertising, but a fundamental shift in who, and what, we are.

This does not happen quickly, but it can be taken back to a simple premise, one which we have followed in our external dealings with analysts, the media and the investment community.

Say what you are going to do, and then do it.

From my first days at Bank of Queensland I have told the people who work under its brand what we are doing, why we are doing it and when we are doing it. I have then made sure we did it.

In this way there can be no illusions about the direction of the bank. We set the targets high, and sometimes we don't quite reach them to our satisfaction, but no-one is ever in any doubt what they are or where we are going.

This has led to some internal cultural developments which some CEOs would, I know, find difficult or even ridiculous, but to me they are a vital part of the culture of the bank.

For example, I make myself extremely available to my staff. Whether it's the monthly staff hotline where anyone in the bank, either direct employee or franchisee or employee of a franchisee, can call me with complaints they can not get attention on or with ideas on how to make the bank better.

I undertake staff roadshows once a year where I speak about what we have achieved, and what we intend to achieve over the next six, 12 and 18 months.

Just as importantly, I mix with the staff after each roadshow – right around the country – and hear directly from them what is going on in each area.

And of course we have the more traditional offsite conferences too for our staff- the annual sales conference and the conference for our top achievers, both within head office and from our networks.

So, while the bank reinvented itself, so the culture also evolved. I was lucky in that there was already a culture of serving the customer, which put me well ahead of some of my banking competitors, but it had to be pointed in a new direction.

That culture is not just about service – it is also about achievement. One of the things the OMBs brought into BOQ was a sense of entrepreneurship.

Now that word has had some bad press in Queensland in the last couple of decades, but it is the right word when talking about how our owner managers are invariably over-achievers in banking.

They are former managers, private bankers, business and commercial bankers from other banks across the country who wanted more – they wanted a return to servicing customers for sure, but they also wanted the opportunity to grow their own business.

That culture amongst our franchisees or owner managers has fed back into our organisation, making us a sales force to be reckoned with, a sales force which, pound for pound, is unmatched anywhere else in Australian banking.

I will talk more about culture shortly, when I talk about our acquisitions.

Infrastructure

According to Kahlil Gibran in “The Prophet”: “The most solid stone in the structure is the lowest one in the foundation.”

And so from culture we go to infrastructure. The problem was, it wasn't enough just to change the culture of the bank, we also had to give this new culture of achievement and growth the right tools and the basic infrastructure in which to achieve their potential.

Infrastructure is not just bricks and mortar, it is everything it takes to support your mission, your vision and your people in achieving that mission.

So, it includes branches and business banking centres. It also includes acquisitions in the business banking area such as UFJ equipment finance and Orix's debtor finance business, both of which have greatly added to our suite of business banking products, and the reach of our business.

And it includes acquisitions of Pioneer Permanent Building Society and Home Building Society over the past few years, which have extended our branch network significantly in the two core areas of Central Queensland and Western Australia.

But, as I said, more on those acquisitions later.

Obviously though, when I talk about infrastructure, I also talk about what most of us would expect.

The major infrastructure investment by the Bank in the last few years has been in our IT system. In 2001 our core banking system was almost 25 years old and our ATM fleet was the oldest in the country.

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This created more than just day-to-day servicing problems - it meant, for example that we couldn't open a branch outside of Queensland because the system would not accept interstate BSB numbers.

It was our own little Y2K conundrum, but without the hype.

So we spent \$40 million replacing that core banking system. This is something no Australian bank had ever attempted before – replacing its entire banking platform in one hit.

It's certainly something I wouldn't want to try again in my lifetime either, as it was extraordinarily complex, and, at times, very difficult for us, our staff and our customers.

But it is done, and while we still manage the challenges of growing as fast as we are and the demands that brings to our IT platform, we now have one of the most modern core banking system in Australia.

This was a foundation stone of our growth going forward, and highlighted how important it was for us to provide the tools for our staff, leading to the products and services for our customers.

This IT stone, combined with the OMB stone, the business banking stone and the cultural change stone, laid the foundation for the growth which has followed.

However, perhaps the most important of all the foundation stones we laid back in 2001 was the most difficult – the people.

Employing the right people has been a key to our success. Not just finding them, but attracting them, making them want to come to us.

We have always run lean and mean when it comes to the number of people doing the respective jobs, and even more so now with our recent restructure made necessary because of the current economic downturn.

So it is even more important to us to make sure we have the right people.

What has also been particularly rewarding to me has been the people who have joined us on the way, attracted by our story, and wanting to join the underdogs in creating something different, something unique in Australian banking.

So infrastructure takes many forms when you are in the service business, but none are more important than the people who make up that business because the most up-to-date computer in the world is still just an idiot waiting for a key punch.

Now, to perception.

“Perception is strong and sight weak. In strategy it is important to see distant things as if they were close, and to take a distanced view of the close things.”

That insight about perception by Miyamoto Musashi more than 350 years ago holds true today.

It is just as important to step back and see the big picture as it is to focus on the detail.

Micro-management is not a good thing, despite what some may tell you. I know I have been guilty of it on occasion and sometimes, as leaders, it is almost impossible not to fall into the micromanagement trap.

But perception is all about keeping enough of a distance to see the road ahead, while also understanding, experiencing and occasionally indulging in the day-to-day issues which beset your staff and customers.

As some PR types like to say, “perception is reality” these days in business as, all too often, we can see erroneous perceptions create completely unfounded realities.

Just as importantly, we have seen in the last two decades here in Queensland, and across Australia, occasions where the external perception of a company has hidden some rotten secrets.

Therefore it is no longer enough just to be seen to be doing it, you must actually be doing it as perception is now more than just skin deep. In businesses, as in sport, this is often called walking the talk.

At Bank of Queensland we knew that to adjust the perception we had to adjust the reality, and then tell everybody about it, more than once.

The simplest way for us to do that was to talk about what we were doing. We were opening branches. Bank branches I mean.

It created quite a stir.

Unprofitable, said the analysts. Unlikely, said the media. Unhinged said some of our industry colleagues.

We believed in the strategy though. We had the right model, we had the right people, and we had a brand which was warmly liked, if grossly under-utilised.

And we ran marketing campaigns about 'opening doors', and asking customers if they knew the name and phone number of their branch manager. Simple really, but it had an impact both internally, and externally.

It signalled a change in the way the bank operated, and how it wished to be perceived.

Good service was not an end in itself; it had to be matched by a cultural shift.

For perception to truly be reality, the BOQ team had to believe it as much as the public and our customers.

Belief by the market analysts, institutions and retail investors would follow.

Perception was important for the market too. Our model did not fit the market analysts' models used to gauge the value of banking stock. We were so outside the box they didn't know how to rate us.

So it took a number of years of achieving the results we said we would, of growing exponentially compared to the banking sector, before many of the banking analysts took us seriously.

Their perceptions were not helped by our competitors who, at first scoffed, and then quietly questioned whether opening branches in itself was a good thing in the economic environment.

So, we had to battle those perceptions too.

And then in August 2004 we took the BOQ brand interstate, opening our first branch outside of Queensland in Byron Bay in New South Wales and Frankston in Victoria.

While many believed our brand wouldn't work outside of its home state, our market research indicated that people in NSW and Victoria didn't give a hoot about what we were called, as long as we delivered on our promise of local knowledge and excellent service.

Our other clear advantage as a bank moving into new markets was that we were not transferring Queenslanders to work in Byron Bay or Frankston, we were forming partnerships with local bankers who took on the franchise as Owner-Managers. We were forming partnerships with people who, after years of experience working elsewhere, finally had the chance to do banking the way they wanted to do it.

So it wasn't a brand-led friendly invasion, rather a people-led expansion into markets which have accepted us willingly because our people have done the work and spread the word.

I'm not saying it went without a hitch – without a doubt there are things we could have done better – but by and large it has been a very successful strategy and we are very proud of what we have achieved.

So while part of our growth strategy was the 'revolutionary' approach, now commonplace across the entire financial services sector, of opening branches and giving customers what they wanted – personal service – we also grew through strategic acquisitions.

Given this is also the case for Moore Stephens Queensland, I'd like to take a few minutes to talk about our experience with acquisitions, particularly on the people side.

The past five years have been extremely busy for BOQ from an acquisition perspective.

We purchased equipment finance company UFJ Finance Australia in 2004 and debtor finance company ORIX Capital in 2005, and then Queensland-based Pioneer Permanent Building Society in late 2006, and Western Australia-based Home Building Society in December 2007.

As I said, a busy time!

And while these acquisitions have helped us achieve market-leading growth year after year, we have also learnt a lot through the experience.

We learnt a lot about the way we transitioned customers, systems, and employees – and it's the employee side of things I'd like to focus on today.

I'll use our most recent acquisition as an example.

When we purchased Home Building Society in 2007, it was a conglomeration of a number of credit unions and building societies that had been acquired over a number of decades.

In fact, when Home employees were introduced to each other, they would talk about themselves as being former CUWA or former StateWest, despite many of these acquisitions happening 30 years earlier!

So not only did we have to get these employees thinking of themselves as BOQ people, we had to get them to Home first.

How did we do it? Well, sometimes it really is the simple things. You replace all of the StateWest, CUWA, and Home mugs with BOQ mugs. You get them BOQ uniforms. You start surrounding them with the new brand so they get used to it, and eventually it becomes the norm.

But that doesn't mean that we wanted them to forget where they came from. I think it's important to acknowledge people's history, and so we made a conscious effort not to say "forget everything, this is how it's done now".

Instead, we talked to them about processes they'd used in the past, and about the processes we were using at BOQ, and then we compared them. We asked them what was good about the way they used to do it, and if their way was better, we weren't too big to admit it. We'd change our processes.

But that was the easy part.

The hard part was getting a Home employee, who's happily been a Home employee for 20 years and isn't really interested in becoming a Bank employee, to not only get on board the merger but to actually get excited about the move.

Well, this is where the challenge lies, as I'm sure you know.

For us, the solution was to create a compelling reason, or a burning platform.

We needed Home people to **want** to move to BOQ. We needed their commitment, their enthusiasm and their dedication.

So we started talking about our values, which I'm pleased to see are very similar to yours.

Passion, Achievement, Courage, Integrity, and Teamwork.

And we talked about the fact that we do things differently – we aren't like the other banks.

We talked to them about everything that is good and wonderful about BOQ - the broad range of products we could offer their customers, the benefits we could offer them as staff, and the exciting future we saw for BOQ, with them on board.

I may sound like I'm being facetious here, but I'm really not. At BOQ we are very proud of our company and are happy to talk about what we love about it.

And when I say we talked to them, I mean it. Despite Home being based in Western Australia, we made sure they saw BOQ people, and branding, wherever they looked.

Not only did my executive team and I make trips across to talk to the staff, we established BOQ ambassadors in the Home offices to talk about what was great about BOQ, and to make sure employees were informed about what was happening.

These ambassadors were across all levels of management, and they were backed up by lots of comms.

We took the 'more is more' approach to communication, using the theory that an employee going through a period of uncertainty will want to be updated on what is going on as often as possible.

We used a variety of communication mediums – from emails, to phone conferences, to town halls, to staff hotlines where they can call me with their ideas or complaints – to get the message across.

And just in case they missed the emails, the uniforms, the dozens of BOQ people wandering the halls, we put a 5 metre BOQ logo on the top of the head office building in St Georges Terrace.

So I wouldn't claim we were discreet, not at all. We sung BOQ from the hill tops.

We told staff what we were going to do.

We told them how we were going to do it.

We told them we were doing it and how it was going.

And then we told them what we'd done.

I'm sure they were sick and tired of hearing from us at the end of the process, but at least we didn't under-communicate.

And now, a year or so on, I think we are seeing the rewards.

We have a committed team in WA who are driving strong results in a slowing economy, and we have even had a number of Home people buy BOQ branches in WA as part of our Owner-Managed Branch Model.

The future

So managing the momentum going forward is going to be different, but just as challenging, as managing the momentum has been for the last five years.

We are now managing the momentum in an entirely different sense, because the global economy has changed completely over the past 12 months.

We have seen major international banks collapse, government bail-out packages, and economy after economy slide towards recession. In fact, we are seeing a global financial crisis unlike any we have seen since World War 2.

I won't get in to the details of the impact of the GFC on the local banking industry, as I would need another half an hour at least. Of course, I'm happy to talk about this later, or in question time.

But in summary, let me say that I believe the key to Bank of Queensland continuing to thrive in this environment is to never settle for success.

Author Jim Collins in his book "From Good to Great" outlines the problems we all face in trying to take that extra step up.

In that book the author outlines a simple philosophy, but one which resonates with me.

He states that the biggest threat facing any company is to become good.

Another way to say it is that "complacency is death" for any company, just as it is for any sporting team.

He says, and I quote: "Good is the enemy of great. And that is one of the key reasons we have so little that becomes great.

"We don't have great schools, principally because we have good schools. We don't have great governments, principally because we have good governments. Few people attain great lives, in large part because it is just so easy to settle for a good life.

"The vast majority of companies never become great, precisely because the vast majority become quite good – and that is their main problem."

I think it is a fantastic assessment of why many fail to achieve the goals they set or the reaches their talents made possible.

In fact, we have seen that even stopping at great is not enough.

In the sporting arena we have seen in with the Brisbane Lions recently, and the Brisbane Broncos in the early 2000s, that, if you achieve greatness, your competition will adapt to meet and then beat that greatness.

It happens faster than ever before.

So, to become good at what you do is therefore the greatest threat to a company.

You must always strive to be great at what you do.

It is a treadmill of renewal, a race without a finish line, a journey without end.

At Bank of Queensland it is a challenge we have relished, and look forward to going forward. The face of the Australian banking sector has changed forever.

And how we manage the momentum going forward will be our greatest challenge.

Thank you.