

CHECK AGAINST DELIVERY

New City Agenda speech: “Leading for mutual value”

Good morning, and thank you Lord McFall for your kind introduction and thank you to New City Agenda for hosting. I know you have a strong record of providing fresh thinking on some big challenges.

My name is Joe Garner, and it’s my privilege to be CEO of Nationwide – Britain’s, and the world’s, largest building society. By size we are comparable with a FTSE 50 company in the UK.

Over the summer, the New York Times published an article titled ‘the moral voice of corporate America’. It argued that in a world where division had become rife, it was the CEOs of some of America’s biggest businesses that were standing up for values, tolerance and inclusiveness.

This struck a chord with me. It reminded me of earlier progressive business leaders. The William Levers, the Cadbury Brothers, the John Spedan Lewis’s – people who championed their workers’ interests alongside, or sometimes ahead, of their own. And it resonated with me because as a mutual, championing and empowering the people that our founder termed “the industrious classes” has always been at the heart of our organisation.

The mutual movement was born in the unequal world of the 18th century.

It was an inclusive, self-reliant form of capitalism where people helped one another to get on.

And in a world where – right now - what divides us seems more prominent than what unites us, I believe mutuality has real relevance today. I personally believe that it is still true that people can achieve more together than any individual can alone.

So how are we doing?

Well, it feels like everywhere we look today, we hear about dislocation and disengagement – a world where people feel they are losing more than they are gaining.

I was born in 1969. Nearly fifty years ago. Throughout most of that time, I have felt that the general direction of travel – the dominant paradigm if you like – is that we are better off working together. And through this period, things have almost constantly improved.

Fifty years ago, there were about 3.5 billion people on the planet. Today it's double that.

Fifty years ago, 1-in-8 children died before the age of five globally. Today it's 1-in-25.

Back then, about 60 per cent of the global population lived in extreme poverty. Today, it's less than 10 per cent. And that's a reduction of 1.5 billion people in absolute terms too.

Back then, only just over half of the global adult population was literate. Today it's 85 per cent.

Life expectancy has increased by 10 years over the period – both in the UK and globally.

And although the world has never been free of conflict, far, far fewer people have died in wars than in any recent preceding period.

Why is it then that the UN's World Happiness Report found that happiness has declined in six of the G8 industrialised nations in the last decade? If we've never had it so good, why does it feel so bad?

Well, while life is better in aggregate, on an individual level, many feel they are losing out.

It's true that we can paint an alternative picture of stagnant wages, a million Brits on zero-hour contracts, and young people struggling to get a start on the housing ladder. And of a deteriorating world where climate change has real impacts and where technology is not only our friend, but a robot that takes our jobs.

This might be the first generation that looks forward to the future with less confidence than their parents.

On top of this, there have been some very clear failures of leadership. From phone hacking, to the financial crisis, to cheat devices in cars.

Perhaps all this is why an alternative narrative has emerged – one led by the idea that perhaps we are better on our own.

And perhaps most significantly, technology amplifies all this. Threats are actually further away than ever, but technology makes them feel closer to home.

You know the saying: when one person dies, it's a tragedy; when a million people die, it's a statistic.

Today, when a disaster occurs and someone films it on their phone and posts it on YouTube, it's a global sensation.

The result has been an increase in anxieties, and a trust vacuum. Many of you I'm sure will have seen the Edelman survey at the start of the year, which showed trust in CEOs hit a record low.

It has also created acute divisions between people – not in terms of wealth or population or background, but in terms of attitude.

As Stephan Shakespeare, the British head of YouGov presciently observed in 2005, we're either “drawbridge up” or “drawbridge down”.

Do we see strangers as a threat, locking our doors? Or are we trusting and see the opportunity a new friendship can bring.

It's never been safer for our children to play on the street, but we have never more scared to let them, so why is that? Because possibly more of us than ever are pulling our drawbridges up.

In an environment where anxieties are high, the natural reaction is to lift the drawbridge, man the ramparts and bar the windows.

Our world is polarising between drawbridge up and drawbridge down. And we are witnessing a similar polarisation in attitudes towards business.

[Rewards of business success not equally shared]

As Winston Churchill said: "Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon."

Perhaps this is because although business can be a tremendous force for social good – it does not always choose to use it that way.

Most obviously today, the rewards of business success are not shared fairly among the stakeholders in a business. In 1970, shareholders received about £1 in every £10 profit a company made, in 2015, that figure was as high as £6 or £7.

So while the 2006 Companies' Act requires firms to take into consideration the interests of all stakeholders – and specifically calls out employees, suppliers and customers – it's clear that shareholder interests are pressing and immediate.

Perhaps this feels more acute at a time when people's living standards are suffering. GDP per person is up 12% since 2010, but wages are down 6%¹ in real terms.

If the economy creates rising living standards for a minority, leaving the majority behind, the system is by definition failing those it should be serving. Or to repeat a question asked at one party conference: 'How can you expect people to support capitalism if they have little prospect of owning any capital?'

A recent poll by the Legatum Institute found that the majority of Britons now view capitalism unfavourably, seeing it as 'greedy', 'selfish' and 'corrupt'². People are questioning the validity of a system that has delivered, as the Prime Minister said a fortnight ago, "unparalleled benefits" to mankind.

Whether this is truth or perception is now irrelevant. The polarisation of attitudes is damaging our society and economy, so what can we do about it?

¹ The IPPR's Commission on Economic Justice

² <http://www.li.com/activities/publications/public-opinion-in-the-post-brex-it-era-economic-attitudes-in-modern-britain>

[Lessons from mutuality and our history]

Well, I believe there are some thoughts we can draw from mutuality in four areas.

Governance. Ownership. Purpose. And Leadership.

Mutuals were born out of the social needs of the industrious classes – the need to provide for themselves in times of disease, distress and death; and to improve their lot in society.

Banks of the time only provided services to the rich and to businesses. And so, it was mutuality that underpinned the Friendly Societies of the seventeenth century, the first building societies of the eighteenth century and the co-operative societies of the nineteenth century.

The story goes that one Friday night in 1775, a group of labourers were bemoaning their sorry living conditions whilst drinking through their wages in the Golden Cross Inn near Birmingham. The landlord, one Mr Richard Ketley, placed an empty jar on the bar and suggested that rather than have another drink, each man place a coin in the jar. When the jar was full, they would draw lots and use the money to build a home for one of the men and their family. And that's what they did, until they all had homes of their own.

In fact, building societies brought more than home ownership within the reach of the ordinary folk. Many early building societies were established

expressly to widen the franchise – this was a time when property ownership was a pre-requisite of the right to vote. And incidentally, the building society “one-member, one-vote” policy extended to female members, a radical idea at the time.

What about Nationwide?

We’re not a bank. We’re not even a company, although we do follow best corporate governance practice. We are a building society governed by the Building Societies Act. We are owned by and run for the benefit of our members, not shareholders.

We have a duty to act in the best interests of all our members – investing and borrowing members and present and **future**. That our obligations are to future as well as current members, gives us not only a license to take a longer view, but an obligation to do so.

In balancing our responsibilities, we take as our starting point that we must be sustainable and successful over the long-term.

There is still a commercial imperative. We need to make a profit and be efficient. We must have the financial strength to ensure the trust of our members, and invest for the future. We need to offer value to our members and remain competitive. We aim to be exemplary in implementing all the standards associated with running a systemically important financial institution in 2017.

But although Nationwide is now a very large business, our primary purpose is still a social one. In the last year or so, we involved all 18,000 of our employees in a consultation which reinforced our deep commitment not to what, but to why we do the things we do. Indeed, we embraced the views of our members last week when we invited some into the boardroom to sit with Board and NEDs to share their perspectives.

[Ownership]

On top of that, our ownership binds our stakeholders in a mutuality of interest. Our members are our customers and our owners – there is no separation between them. Our employees are mostly also members, and therefore owners. This means that when we come to balance the interests of our stakeholders, they are in less competition with each other.

Many of today's issues arise from disputes about how different stakeholder interests are balanced. I have worked for Plcs for most of my career to date, and I very well know the pressures that are created by quarterly reporting, rising customer expectations and a competitive market for talent.

Getting the balance of responsibilities right is not always straightforward – even for us. Our savers want high interest rates. Our borrowers want low interest rates. We need a big enough gap between the two to pay our people fairly and deliver legendary service.

By investing in our customers – our members - through better pricing and better service, hopefully they stay with us. And we believe loyalty leads to growth. In thriving membership – not necessarily profit. Last year, Nationwide put an extra £500m in our members’ pockets through better rates and fees.

We also aim to be a fabulous place to work – over the long term. We became an accredited Living Wage Employer and a Principal Partner of the Living Wage Foundation in January 2014.

And last year we went a step further, by introducing a ‘living pension’ for our employees, increasing our employer pension contributions significantly. It’s important to me that our employee engagement is among the highest in the UK.

[Social purpose]

Next, our purpose – to co-operate and collaborate to improve the lives of ‘the industrious classes’ – binds our interests with those of society more generally. We are very lucky in that we were founded not for a commercial, but for a social purpose.

The Legatum poll I mentioned earlier showed strong support across all ages and political leanings for the idea that ‘making a profit should only be one consideration among many’.³

Leadership

In light of the polarisation of attitudes all around us, businesses need to ask themselves, what kind of business leadership is needed? In a world where I perceive a danger that the idea of competition ‘trumps’ the idea of cooperation, does business have a role in what Field Marshall Montgomery described as “creating the atmosphere?” If so, what kind of leadership should business demonstrate?

A gung-ho, competitive style of leadership?

A new kind of leadership altogether?

Or is it perhaps an old style of leadership?

I believe that business leaders, myself included, at times need to be tough, strong, determined, persistent, resilient, knowledgeable and thick skinned. But there is plenty of that around. In my experience, customers and employees don’t care how much you know, until they know how much you care. And it doesn’t matter how persistent and determined you are, if nobody trusts you.

³ <https://lif.blob.core.windows.net/lif/docs/default-source/default-library/1710-public-opinion-in-the-post-brexite-era-final.pdf?sfvrsn=0>

Putting the humanity back into a business world dominated by metrics and finance is necessary if we're to regain trust in business.

As a mutual, I believe we have an opportunity ... maybe even a responsibility ... to show that values of collaboration and cooperation are compatible with, and contribute to long-term business success.

Furthermore, in an environment where we're debating if we are better off alone, perhaps we can help remind that we can achieve more together.

Indeed, that's why at Nationwide, we're investing in a leadership programme called Leading for Mutual Good, to equip our future leaders to marry our mutual values and heritage with running a successful business. I'm pleased that some of our future leaders participating in this are here today.

Leadership is not the preserve of only the most senior people in an organisation, which is why we include a broad cross-section of our employees in the programme, not just senior leaders. We expose our leaders to a range of views, inviting external participants – like the NHS, John Lewis, and the police – to join the programme. And we involve speakers from highly varied callings – a conductor, a philosopher, a psychologist, to give you just a few examples.

We encourage our current and future leaders to think through how we make our decisions, and how to ensure our values – our social conscience – is a part of that. It's about logic, it's about the law, but it's also about love.

If you think the programme sounds interesting, you might be interested to know that we are holding three places for external participants. We will offer to fund three attendees from the public sector to attend the next four day programmes in December and March. The only criteria is that they must be keen, willing and able to make a difference to the wider leadership agenda. Please let me know if you would like to be part of it, or have a candidate. Leadership shapes culture and culture determines outcomes. We want to offer to help develop the leadership capability in whatever way we can.

Part 4: Beyond narrow business interests.

So that's the theory. I want to spend the last few minutes talking about a few examples of how we try to put our values into practice. We are focusing on two areas.

The first is housing. As the saying goes, an Englishman's home is his castle - but for too many people, the prospect of a decent home is more of a castle in the sky.

So we're trying to improve people's access to, and the quality of, affordable homes – whether owned or rented. As we've done for 150 years.

We help commercially by being open for business, raising deposits to provide competitive mortgages. Over the last five years, we've helped 1 in 5 of all first time buyers – 275,000 in total - into homes of their own – enough to house the entire population of Derby and more.

We've helped protect homebuyers from punitive ground rents by refusing to lend on properties with a ground rent of over 0.1 per cent of a new build's value. That means that on a typical home valued at £200,000, ground rent couldn't be more than £200 a year.

We're bringing new types of home out of the more expensive specialist mortgage market into the mainstream. Nationwide continues to lead the work to support the large-scale acceptance and adoption of homes built with Modern Methods of Construction. We believe this key to promoting lower cost, and higher speed of new homes building in the UK.

Recently we've worked with a Community Land Trust just a few miles away in Mile End Road to make their affordable homes meet the criteria for cheaper mainstream mortgages for the first time.

In the rental sector, we've heard the concerns over the price and quality of privately rented homes, and taken actions both to support landlords and protect tenants.

We've introduced minimum standards which rental properties must meet to qualify for a mortgage.

And we've sought to help smaller landlords, who are struggling with a growing list of responsibilities, by creating a cross-industry partnership – which includes Shelter, estate agents, landlord and letting agent associations – to monitor the health and development of the private rented sector, and provide policy solutions to government.

On top of these commercial decisions, we're also directing our social investment – the 1% a year of profits we give to charitable causes – towards helping people find a place fit to call home.

Over the next five years, we'll invest up to £21 million in community housing projects, chosen by a ballot of local members. In fact, our first Community Board is meeting in Newcastle today to shortlist the projects members will choose from.

Among them is an application from Northumberland Community Enterprise in the deprived ward of Stobhill. They've applied for funding for a project to support older people, and those with disabilities, to live independently at home....

They will create a one-stop shop where vulnerable people can access not just advice, but a handyman and gardener. The service will be needs-based and could keep up to 1,800 people in their own homes. This is just one example – we will be supporting literally hundreds of housing projects over the next five years, to deliver better housing outcomes.

Vulnerability agenda

A second issue we're focusing on is how to support those that at risk, 'relief in distress' being one of our founding principles.

Understanding people's concerns is an important starting point. For example, after the Brexit vote we decided to set up a Brexit consumer panel – working with consumer-focused organisations to take the pulse on consumer sentiment and feed our findings into our own practices and to policymakers as the Brexit negotiations progress.

And we are working hard to make sure we support our vulnerable members within the Society. Every member-facing colleague receives dedicated training to help them spot and deal sensitively with more vulnerable customers. And we have a specialist unit to deal with the complex needs of our most at risk members, which we've recently extended to include mental capacity and age-related problems. We work with multiple charities so our support is as practical as possible, and are equally happy to share the lessons we've learnt and our approach with other organisations.

We're also delighted to be working with the government's Inclusive Economy Partnership, which brings together business, civil society and government to tackle some of the challenges faced by those on low and middle incomes today.

If you have an interest in either of these issues, do come and talk to us, and tell us how we can work with you to make a difference.

Conclusion

I said earlier that, at the heart of our organisation lies the belief that people can achieve more together than alone. Our members and our business have prospered through collaboration and co-operation.

As we look around today, at a world hovering between competition and collaboration, between drawbridge up and drawbridge down, there are real choices about how we take our society and economy forward. If we are to make sure that business can benefit everyone, perhaps we could pay more attention to purpose and leadership.

Perhaps to rekindle an out of fashion kind of leadership – one that is strong and determined, yes, but one that cares.

At Nationwide, we don't get everything right, and we won't get everything right in the future. We too face the threats of cyber, the challenges of competition and the potential of technology. But our aim throughout is to use our influence and purpose to drive better outcomes for society.

Building society....

Whether it's making homes affordable for twenty-somethings, supporting people through hard times, or showing that a progressive business agenda is no barrier to success – we truly believe we can achieve more together than we can alone.

Thank you very much for listening, and now I'd be very happy to hear your comments or answer questions.

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