Chapter 18

Global Corporate Culture meets Local Culture & Practice - HSBC in Malta

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Introduction

Background
With 90 million customers of 9,500 offices in 80 countries and territories, and employing 215,000 people worldwide, the overall HSBC Group culture has to be underpinned by an understanding of local culture, local people and local requirements – hence the Group tag line: the World's Local Bank. The HSBC Group, both at HQ in London and here in Malta, recognises that there is a balance to be achieved and great value to be gained from understanding and responding to local cultures, both as an employer and as a business. HSBC also believes that it needs to maintain certain standards in running its business. Some of these standards are established by the Group and are required to be adhered to on a worldwide basis, particularly given the nature of the business, e.g. honesty and integrity, which are expected from bankers everywhere.

HSBC Group has considerable experience of purchasing new companies. It will always require certain Group policies and procedures to be adopted by the new business, wherever it is in the world. Also, certain business performance criteria and credit standards are used as measures and controls across the bank. The successful management and control of its businesses on a worldwide
basis is seen by investors and analysts globally as one of the key strengths of HSBC Group.

As well as standards and procedures, the Group sees it as extremely important that HSBC core values are well understood and observed throughout the organisation. It regards Group core values as paramount in every business; thereafter, each business focuses on the local culture. HSBC considers compatibility of corporate character as a key issue presenting a major challenge during acquisitions. The Group has been known not to progress with a potential purchase where it was felt that the new company would not be able to comply with the Group core values.

In terms of Human Resources, the Group has established policies that are followed by its businesses as a minimum, unless they are contrary to local law. In such issues as core standards of behaviour, diversity and equal opportunity, Group policies reflect worldwide best practice.

**HSBC Group Standard HR Policies**

HR functions work closely with line management and seek to add value to the business decision making process, thereby improving business effectiveness. HR policies aim to be consistent with, and supportive of, the business objectives; appropriate in the competitive market in which the business operates and meeting fully the legal and regulatory requirements within which it functions.

The core Human Resource values adopted are as follows:

- dealing with people in a fair and equitable way;
- maximising the development and training of employees to meet the current and future needs of the business;
- being an equal opportunity employer;
- creating and maintaining a safe and healthy working environment;
• being open and honest with employees;
• recruiting and promoting on the basis of merit;
• recognising and rewarding individual ability and performance appropriately;
• creating a climate conducive to the realisation of the objectives of the business;
• fostering a working environment where initiative and innovation can flourish;
• ensuring that people are given every opportunity to achieve their full potential;
• pursuing teamwork and team-spirit.

These values are embodied in all Human Resource manuals and are practised in all Group Offices unless specifically precluded by local legislation or custom.

**HSBC in Malta**

**The Purchase**

On an ongoing basis HSBC Group reviews opportunities to develop and expand through mergers and acquisitions of appropriate businesses in appropriate locations. HSBC already had a small presence in Malta and the purchase of the successful Mid-Med business presented an opportunity to further expand in Europe.

In the early days, one of the big issues was the fallout surrounding HSBC's purchase of Mid-Med. The whole issue of the sale of Mid-Med Bank to HSBC was obviously very high profile in Malta and concerns were raised regarding the deal. These concerns impacted immediately and very strongly on employees' views and on the public perceptions of HSBC. It is HSBC Group's policy wherever possible not to get involved in politics and the approach to dealing with the poor public relations impact of the purchase in Malta was to try to avoid getting involved or commenting. To some extent
this may have led people in Malta to see the bank very early on as aloof and not caring about the local people’s opinions. This created an immediate perception of a clash of cultures in an environment where communication and relationships between people is key.

Also, the fact that Mid-Med was one of only two financial institutions that controlled the majority of the financial services market, meant that the purchase gave a foreign bank the potential to influence the economy of the country and this gave cause for concern in some quarters.

**Key Differences**

One major change within the business that applied from day one, was that whilst Mid-Med was a state-majority owned institution, HSBC Bank Malta plc was answerable to UK as well as Maltese shareholders. The HSBC Group’s overarching goal was to provide shareholders with long term value. This foreign influence was the driving force behind many of the changes that HSBC sought to make in the business: customer service focus, cost management, more efficient procedures and operating systems, meritocracy, setting of measurable targets, performance-related pay, stricter lending guidelines.

This fundamental difference in business ownership also influenced the speed with which HSBC wished to see the changes made. This again brought HSBC up against the Maltese/Mediterranean culture of taking things at a steady pace, wishing to talk things through, and think and re-consider things, whilst HSBC tends to value speed of decisions and action.

**Employee Reactions**

Change creates uncertainty and fear in all cultures and the coming of HSBC into Malta was no different. Employees started thinking: What would HSBC do? How would things change? Would expectations of individuals change? Would they be better or worse off? Would they have a job? Would there be mass redundancies

As a state-majority owned institution, Mid-Med generally offered the security of a job for life: indeed it was able to and did at times create additional employment if it was required. A concern of employees at the time of the purchase was job security. Experience in Mid-Med had been of a growing number of employees, and there was fear that in its desire to increase profits further, HSBC would have a different approach. Also, individuals had expectations regarding promotions that HSBC again might approach differently.

One major culture change that employees had to come to terms with was the change of emphasis within the bank from credit to service and sales. In the past credit skills and experience were seen as the most important in the bank and were more highly valued than other skills. Now, the ability to lead and manage people, service and sales are at least as important and have been given a much greater focus.

Some employees viewed working for a global organisation as offering valuable opportunities to develop skills and experience both locally and internationally. However, some employees were unhappy that a 'foreign' institution had taken over a local bank. Perhaps their concerns were rooted in culture and history: having gained political independence only in 1964, was this the start of a new type of colonialism? After the end of the British connection, was this their way of getting back in through the back door?

Expatriate Management
HSBC firmly believes that its strongest competitive advantage is built upon its Group corporate character. Whilst recognising that each acquisition has its own special circumstances, the key to successfully integrating an acquisition into the company is to have people within the organisation supporting the values of the Group. In bringing a core group of key managers into any new acquisition, HSBC's objective is to introduce and implement change and to influence behaviours and values. The first is easier than the second.
Obviously, the allocation of key senior roles in the new bank in Malta to 'foreigners' was a cause of resentment amongst some employees. However, the business justification for this approach, which HSBC uses in each of its acquisitions to a greater or lesser degree, is the need to bring in people with knowledge and experience of Group procedures to enable speedy implementation and adherence to Group standards and values.

Particular to the acquisition of Malta, because of the English language, the Western environment and the many English features of the location, it was easy for incoming expatriates to assume that there was a greater similarity in culture and approach than actually existed. In the case of Malta, cultural training was not given to incoming expatriates, again possibly because of assumptions that there were little or no cultural differences. Most Maltese speak and understand English, therefore expatriates might readily assume that people would interpret what they were saying the same way as they did and that people would think the same way. It was perhaps easy to think that they had come to a small island off the UK rather than one off Europe and Africa.

However, local people did at times respond and react to things that were said and done in ways that were different to what was intended and expected, and mistakes were made. For example, the Christmas cocktail party was cancelled the first year, causing major discontent amongst employees. The new management proposed to introduce the same approach to Christmas parties as in the UK, which was separate departmental parties and which would have cost more than the cocktail party. They did not recognise the intrinsic value of this bank-wide event which had taken place for many years and was the one opportunity for employees who had worked with each other in the past, to refresh acquaintances each year. Also, when the name change from Mid-Med to HSBC was implemented, social functions were held to which customers, but very few employees, were invited; thus, the latter felt unfairly left out of something that they saw as involving and affecting them very much.
Initially, a number of expatriates were brought over to cover most of the new senior roles in the new organisation and also some roles that required specialist knowledge of HSBC systems and procedures. The number of expatriates built up over a period of a few months reaching a maximum of fourteen individuals. Now, as the Group's standards and core values are better understood and accepted by local management, leaving expatriates are being replaced by senior Maltese employees. The number of expatriates will fall to seven by the end of 2003.

Trade Unions (MUBE, GWU & ULG)
Within HSBC Malta, the workforce was represented by three trade unions. MUBE represents the bulk of the clerical and managerial workforce, up to but excluding senior management; GWU represents the non-clerical workforce and initially ULG representing legal employees, until individual contracts were agreed for this group of employees.

Obviously a key concern for the unions throughout the takeover was job security for their members. Their position was very delicate in the early days. Initially they had issued directives that at one point seriously threatened the conclusion of the deal, feeling that they were not being kept involved and their concerns were not being listened to. In the midst of the public furore, they were trying to ensure that employees were protected.

Once the purchase had gone through, HSBC sought to make a number of changes to HR policies. These changes included merit based job selection and promotions, setting targets and objectives, performance-related pay, job description and job evaluation, changes to the grievance and disciplinary procedures. These represented a fundamental shift in the way people were managed and rewarded in the bank. Gaining acceptance for the need for change and also the desired speed of implementation was a big challenge for the bank in its relationship with the unions. Cultural differences came to a head here as the unions had expected more of
a 'soft sell' approach to the changes that HSBC would want to make, and they were shocked by the whirlwind of new policies and procedures that the bank wished to introduce immediately.

The power and influence of the union bodies was also something that HSBC was not generally used to. Often, if employees had an issue or even simply a question, they would prefer to talk to the union rather than their line managers, or anyone else in the bank. Sometimes staff presented an image to their bosses that all was well but at the same time they would be complaining to the union. This level of union involvement was new to the HSBC management.

Interestingly, one of the complications affecting HSBC's ability to quickly understand the culture, was that whilst the strongly unionised culture might suggest a preference for collective rather than individual interests, this contrasts with the culture of focusing on personal interests (Baldacchino et al., 2003:151-153). This apparent contradiction made it difficult for the unions to truly negotiate for the greater good, at times, even when proposals to introduce totally new benefits were made. For example the bank proposed a totally new money bonus scheme and also a share option scheme. The fact that the rewards under these new schemes would not be awarded equally to all but would differentiate between individuals, and hence some would be better off than others, was seen as a great negative.

A conceptual issue that both the bank and the unions had to manage is the fact that culture and history tend to drive employees' expectations for issues to be resolved through conflict and strike action as opposed to discussion and compromise. This resulted in unfair and unfounded accusations being made in some quarters where the unions and the bank had reached agreement (Baldacchino, 1999:4).

Over time, HSBC and the unions reached an understanding. The unions recognised that changes needed to take place; the bank recognised that people needed persuading; and both recognised
that the bank and the unions needed to sell changes and needed
time to do so (Pfeffer, 1998).

Customers
Many of the savers in Malta historically held foreign banks in high
regard and valued the opportunity to do business with them; they
therefore welcomed HSBC as a respected international financial
services business. However, the early impressions of some
customers and other local commentators were that HSBC was
forcing a change in the way business was conducted not only within
its own business, but also in Malta as a whole. Closing branches,
reducing the number of employees through voluntary means, and
tight rules that had to be followed when making lending decisions,
all contributed to this.

Following the acquisition, HSBC closed a few branches and
agencies in locations where only a small amount of business was
done or where (in the new management’s eyes) there were other
branches fairly close. However, village life is obviously very
important in Malta and also, having to travel distances that might
be viewed as small in other countries, was seen as unacceptable in
Malta. Again, HSBC’s actions in implementing these closures may
have been seen in some quarters as a global organisation acting
with little appreciation of local needs.

HSBC strongly believes in meeting the customers’ needs.
However, customers did not feel that this was demonstrated in
the bank’s actions when HSBC began to encourage customers to
use the automated delivery channels for simple transactions,
preferring to reserve the more costly resource of people to deal
with the more complicated issues. Again this may come across as
HSBC being cold and aloof and reluctant to engage with customers,
preferring them to use the automated facilities rather than engage
in face to face encounters with staff.

Of course, the bank needs to control bad debts and HSBC has
global standards with regard to the maximum amount of lending
on its books that it considers may not be repaid. The way it manages this is by setting strong guidelines for how lending decisions are taken; basing decisions on tangibles such as income, security, and percentage investment by the customer versus that of the bank. In the past in Malta some of the lending was approved on the basis of personal contact and knowledge of the borrower, basically name based lending. 'Named Lending' happens in other parts of the Group, but possibly because of the size of the island and the close personal contacts, HSBC felt that, in Malta, too many of the lending decisions were made on that basis, perhaps without the backing of adequate financial documentation. However, initially closing that route down completely had a negative impact on how customers felt about the bank, creating a further culture clash.

As well as changing the accepted approach to lending on the island, another difficulty was the basis on which the bank expected lending decisions to be made. Group guidelines required decisions to be made on the basis of a customer's ability to repay, which was assessed against declared income, not what you think the income might be. Again: HSBC's new rules clashing with the Maltese culture and practice.

The introduction of this new approach to lending was initially tough for all. However, over time there has developed a better understanding and appreciation of the bank's lending discipline from customers, employees, and other financial services institutions. In some quarters now, the more considered decisions are viewed as more professional and it is felt that HSBC has encouraged more discipline in business management on the island. Certain customers perhaps still don't like the new approach; but they respect it.

A positive change in terms of its approach to customers was the focus of time and effort made to identify and respond to customer needs. The bank aimed to ensure a positive experience wherever the customer interfaces with the bank. It encouraged employees to focus on customer needs through appropriate objectives and detailed training. It also began to reward employees for customer-
focused behaviour and regularly surveys customers’ views and opinions regarding the service that they receive from the bank.

**Human Resources Policies**

*Meritocracy*

The underlying tenet of the HSBC approach to managing people is a meritocracy, whereby, of course within the confines of affordability, individuals are rewarded for their contribution and effort. This underpins many of HSBC’s standards and is used in decisions regarding performance review, reward and recognition, job descriptions and evaluation, selection for job moves and promotions. Whilst the introduction of targets and performance management were being considered by Mid-Med, the concept was being developed, discussed but had not been implemented. In the past, Mid-Med had had an agreement with the unions on the number of employees in each grade. Promotions were therefore made when the number of employees within any particular grade fell below the agreed level and individuals could be still doing the same job but would have been promoted. It did not matter whether there were jobs vacant at that level. The fact that jobs were not evaluated or even described, mitigated in favour of this approach.

*Targets, Objectives & Reviews*

A key change the bank wished to make was the introduction of a stronger customer service culture and crucial to this is how employees deal with customers. One simple way to change people’s behaviour is to directly link behaviour to reward. The start of this process is to ensure that what you want people to achieve is clearly defined and measurable. HSBC Group has profit targets that it sets each year to achieve the returns expected by its shareholders. These targets are progressively cascaded through Group businesses and through branches to each member of staff. Thus the sum of
what each person achieves each year should add up eventually to the Group's targets. Additionally, the bank aims to define more clearly what is expected from each employee through establishing core standards of behaviour, which are then included as part of all employees' objectives. These cover issues like teamwork, honesty and integrity, and treating people with respect and dignity. On a regular basis individuals and their line managers review progress against objectives for the year and employees are kept informed as to how they are doing. If they are falling behind in their targets, they are helped to improve through coaching and counselling.

**Performance Related Pay**

The objective setting and review process is then backed up by performance related pay. There were several key changes made to the bank's reward policies to facilitate this. HSBC prefers to avoid guaranteed salary increases across the board. It seeks to pay salaries that are appropriate to the market place and prefers to pay annual salary increases that differentiate between the best and weakest performers. Mid-Med's approach had been to pay a flat rate increment across the board to all employees, taking little account of their contribution. The compromise reached in this area is to award a smaller guaranteed increase to all individuals whose overall performance and behaviour is at least good, with the opportunity for line managers to pay higher increases where performance merits it (Marchington & Wilkinson, 1996:294, 317-336).

Additional to the salary review, the bank has also introduced an annual bonus scheme, which awards a lump sum payment. The amount of the bonus payment is calculated each year on a formula that is based on the individual's performance against individual objectives and also the overall corporate performance against plan. This directly links individual and business performance to individual reward (Zingheim & Schuster, 2002; Marchington & Wilkinson, 1996:298).

The bank also grants share options in HSBC Holdings to high
potential, top performing employees at all levels. The awards are a valuable retention mechanism and assist in establishing corporate loyalty, increasing the employee’s interest in the share price and hence his/her involvement and commitment to the success of the bank. As a benefit, obviously its value can go down as well as up (Doeringer & Romanche, 2002).

The implementation of these new reward mechanisms also required a major change of culture from management who had historically treated people equally. Although in the past individuals had been given annual performance ratings, these did not affect their reward. The new approach required managers to differentiate between their staff and face the potential challenges that might ensue.

Job Descriptions and Job Evaluation
In support of the meritocracy approach HSBC Group also uses job descriptions to define roles and job evaluation to assess the size, i.e. grade, of each job. Thus, individuals are clear regarding the responsibilities of their roles and are given the evaluated grade of the job they are doing. HSBC uses the HAY job evaluation system in the majority of its businesses worldwide. This enables the Group to compare structures across its different businesses and facilitates the transfer of individuals between them (Marchington & Wilkinson, 1996:307-316).

Each job is described in detail and employees now know what each job is really responsible for. These evaluations were not previously held, although an exercise had been undertaken in 1994 to develop job descriptions, allocate grades and introduce performance management, but this was abandoned after difficulties with the unions. A ‘reports to’ structure was also introduced as part of the job description process. This made the cascading of objectives, responsibilities and authority levels much easier to introduce. Grey areas of who was responsible for what were also mainly eliminated.

Introducing job evaluation across the bank was a major project.
Managers and union representatives were trained in the HAY job evaluation system and evaluation panels were held to review and evaluate the majority of roles in the bank. Since introducing job evaluation in June 2000 there have been 764 promotions. Job evaluation was a big change for the bank in Malta, where previously promotions had been granted much more on a time served basis. Interestingly, despite this level of progression, staff feedback suggests that they feel that there are no opportunities for career development. Part of this may be the expectations that were created in bringing in this new approach and the number of promotions that resulted in a short space of time (Marchington & Wilkinson, 1996:294-316).

**Job Advertising**

As part of its meritocracy approach the bank also introduced a policy of advertising job opportunities internally. The majority of clerical roles are advertised and the unions are advised where managerial opportunities are not going to be advertised. Advertising job opportunities gives employees the opportunity to take some control of the development of their skills, knowledge and experience and also of their career progression. It allows them to apply for roles in different areas to broaden their knowledge and also apply for jobs at a higher grade, provided that they have been in their current grade for an appropriate period and have the relevant experience. Applications are screened and short-listed candidates are assessed by line managers and HR through criteria based interviews, in accordance with the skills and experience required for the job (Simpson, 2002).

This approach aims to make the selection of individuals for roles and promotions much more transparent, and to empower employees to actively manage their own careers. The approach does not wholly override the natural culture, however. HR still get reports that line managers ring individuals prompting them to apply for advertised roles and these individuals tell their colleagues that
they have already been identified and selected for the job beforehand, creating much cynicism regarding the process when they are selected as the best candidate.

**Collective Agreements**

Three yearly collective agreements, which completely revisit all the terms and conditions of the employment contract, were a new concept to HSBC. Particularly, reaching a deal on salary reviews that applies for the next three years, when future performance of the business, economic and employment conditions are all unknown.

Also, different was the highly developed collective approach in Malta, as opposed to the much more individualistic approach now prevalent in many Western business environments in which HSBC has businesses. Much suspicion was created when the bank sought to introduce different contract terms for the salesforce, and new grades and salary scales for IT.

**Job Security**

HSBC has moved away from the concept of a job for life and continued employment is seen as having more to do with successful individual and corporate performance. However, HSBC still greatly values loyalty, service and commitment to Group behavioural values, but expects this to go hand in hand with contribution.

**Union Relations**

Originally there was an element of lack of trust between the unions and the bank. The bank held the position that it had the right to run the business as it deemed fit in the interests of the shareholders. The unions on the other hand felt that, since certain measures affected their members directly, they could insist on prior consultation before such changes were introduced. As time passed both sides converged and overall relations improved greatly. Relations with the unions are now generally positive. HSBC does
see unions as having a valuable part to play and a contribution to make in the effective management of the bank.

A new concept to the bank and trade unions in Malta is that what is good for the bank might also be generally good for employees. Since the bank is a profit-making organisation with shareholders to account to, decisions that might damage the business and cause poor performance, will also be bad for the individual in terms of reward in the short term and job security in the long term (Pfeffer, 1998).

**Europe**

HSBC Group has a well-established European Works Council to which observers from Malta have been invited since EU accession started being negotiated. Once Malta joins the EU, full representation rights will be granted. Strong links already exist between the unions in Malta and their HSBC counterparts in the UK. As union colleagues become increasingly involved in wider European activities, the world 'best practice' standards of HSBC's HR policy and practices become increasingly evident.

**Malta Lessons for HSBC**

One of the benefits of being such a large organisation as HSBC is that it can continually learn, develop and improve from its experiences. Whilst the bank will always wish to ensure that its standard policies and core values are taken up and followed in new locations, there are lessons it could learn from its Malta experience. These lessons include:

- Ensuring that incoming expatriates are given an understanding of the culture of the new location, no matter how familiar it might appear.
- Ensuring that there is recognition of what the cultural differences are and therefore how proposed changes might be received and how they can be implemented most effectively.
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- Ensuring that, in the context of its own tag line, the local culture is not only understood but also acknowledged and respected.
- Ensuring that whilst changes and improvements are made, one must not infer that all in the past was bad or negative.

Continuous and open communication of what are the changes that need to be made, why they need to take place, what will be the benefits for the individual and how they are going to be implemented are key. Working in an environment where there is open, two-way communication perhaps exposes the new management, but would go a long way to developing a level of trust and confidence much more quickly, facilitating more rapid understanding and acceptance of the changes that need to be made (Lucas, 2002).

Winning Hearts and Minds

It must be acknowledged that a huge amount of change has taken place and this has been achieved through a joint effort between HSBC employees, the unions and senior management of the bank. After the initial period of uncertainty of the take-over and the first Collective Agreement negotiations, increasing recognition of the value and benefits of the proposed policies both from an employee and the union perspective, were invaluable to their being successfully introduced.

Culture is a concept that affects actions and behaviour but understanding and accepting different cultures is a difficult skill to develop. HSBC recognises that it has established its own culture of Group standards and credit discipline in Malta but there is also recognition that there is more work to do on understanding the hearts and minds of the Maltese people. What exactly that work should be is more difficult to define.

The bank has undertaken three employee surveys to gauge the views and feelings of employees and monitor changes over time.
The feedback from these surveys gives line managers and senior management a sense of direction in terms of what is giving employees cause for concern and how things can continue to be improved.

The ideal would be that individuals see themselves as employees of HSBC but are also proud to say that they work for HSBC and that they truly feel a part of this huge global organisation. The question is: how do we achieve that for employees here in Malta?
References


