

## Craigmyle lecture 2015

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To stand up and speak about morality, in whatever context especially if you are a sinner like me, is rather dangerous and in this context, I am reminded of John Mayor's back to basics campaign which quickly collapsed around him as his Ministers' indiscretions and misbehaviour became publicly known. I hope I fair better than him.

My purpose here tonight is not to defend the capitalist system, many more qualified people than myself have done it very effectively and, in any case, I don't believe there is any real alternative to free markets but you will excuse me if I dwell on this subject for a minute or two.

During the 20<sup>th</sup> Century, we have watched different models of socialism fail, some more spectacularly than others. The only socialist Governments that presided over a sustained rise in living standards were those that quietly ditched their left wing economic dogma. China did this after Mao. In a

less dramatic fashion so did new Labour in its early incarnation.

You only have to go to Cuba to see the disaster that a Marxist system engenders with the country stuck in a time warp and its people living in poverty without the basic freedoms that we all enjoy.

The election of Jeremy Corbyn as Leader of the Labour Party takes me back to the late sixties and seventies when the kind of policies he is now advocating were absolutely disastrous for the UK, reducing it to a state of penury going to the IMF like a third world country cap in hand.

It is interesting that since the collapse in 2009 following the banking crisis, the countries which have recovered quickest are the US and the UK who run more market orientated economies than those of continental Europe. Both the UK and the US have recovered the GDP lost during the recession and are continuing to grow at a good rate. They have created millions of new jobs and are coming close to

what is regarded as full employment. By contrast, continental Europe is still in recession with high levels of unemployment and an unwillingness or incapability of making the structural reforms required to move things forward.

The financial crash in 2009 which required huge Government intervention to hold things together, sparked a belief that capitalism, as we had known it, was over and something new had to take its place. But nothing has really changed since then.

There is no doubt in my mind that Government policy fuelled the extended boom that led to the many excesses. Governments continued to provide both fiscal and monetary stimulus at a time when the economy was already overheating. This gave individuals at the top of business a false sense of security and a belief in their own infallibility as everything continued to rise. There was a belief in a new paradigm and Gordon Brown said he had abolished boom and bust.

Bubble conditions always create excesses and have done so throughout the ages and this time has been no exception, although there were more people at it than ever before and the world seemed to lose the distinction between creating wealth and worshipping money.

The behaviour of many individuals and corporations have given capitalism and business a bad name. The sad thing is that most of the individuals concerned got away scot free, with their reputations unscathed and their bank balances enlarged.

The spotlight has been shone on the banks, but many other businesses have shown equal levels of excess, and the culture where senior managers who have no personal financial risk pay themselves hugely inflated levels of remuneration unrelated to the contribution they make to the business is just plain wrong. And even when they fail they still walk away with handsome rewards.

The problem is that shareholders have lost control of the companies they are invested in because shareholdings are too widely spread and disparate and institutional shareholders who have significant holdings are reluctant to take seats on Boards as it restricts their ability to buy and sell the shares at will. And when so called “activist” shareholders try to exert more control on companies, they are often minorities pursuing their own short term agenda, rather than the longer term interest of all shareholders.

It would seem that we have lost any sense of values and that business is an area which no longer has any sort of moral compass.

I have been involved in business for over 50 years starting with holiday jobs in my school and university years, through working as an articled clerk to running a very large company and starting my own business from scratch. During that time, I have seen it all and there have always been buccaneers, people who sail too close to the wind and outright criminals. Names like Slater Walker, Robert

Maxwell and Tiny Rowland, to name but a few caused sensations at their time, but usually ended up getting their just desserts.

The City was run more like a club, it was difficult to get in but if you misbehaved you were drummed out of it very quickly. Today there seems to be more of an indifference to the rules of fair play and almost an endemic culture of amorality. When big institutional banks behave the way of a fly by night trader it is very worrying. I asked the new Chairman of one of the major banks how he was getting on, he replied that the most difficult thing was to change the culture and that people down the line didn't believe the Board really wanted the different approach it was advocating.

I always like to compare the behaviour of Warburgs who were our merchant bank in Trusthouseforte in the 70's when it was still run by its founding fathers, Siegmund Warburg, Henry Grunfeld and Eric Korner and in the 90's after it had become Warburg/UBS. In the 70's you

received dispassionate advice, you examined acquisitions with their involvement and the primary driver was the interest of the client and the maintaining of a long term relationship. If no transaction had taken place for a couple of years, you received a letter outlining the work that had been done on your behalf with a suggested sum to cover this. You usually paid it without demur. In the 90's, I had decided to sell Gardner Merchant to Compass and had agreed a price, but during due diligence they started the "salami slicing routine", finding reasons to reduce the price which I refused to accept. At a meeting convened to resolve this, they continued on the same tack so I interrupted the meeting and withdrew my people from the room. I returned to my office a little later and found the Warburg man on the phone to his opposite number at Lazards saying "don't worry old boy we will get the show back on the road". He was not protecting my interests and was only motivated by his fees and the bonus he would derive from them. Needless to say the show didn't get back on the road and I sold the business a little later for a higher price!

The world outside business has changed. There is a different perception of morality to 50 years ago and values in society are very different. It is not surprising that some of this has passed onto the business world.

There are nevertheless plenty of examples of well run businesses where good and moral values are maintained and I sincerely believe that the only way to succeed in business in a sustainable way is to adopt good moral principles.

Morality in business is essentially driven by personal values. I was lucky enough to have had an excellent education, but more importantly a Catholic education at St Phillips in London and Downside before going to Oxford. This gave me a very good moral framework and a set of principles and values which have stood me in good stead. I have also had the example of my father, who like his father before him, was extremely principled in the way he did



business. He was a very successful man whose reputation of integrity still lives on today.

I believe that my business is built on sound moral principles relating to the way I treat my staff, my customers, my suppliers and my partners. A business has to have clear values which incorporate respect for everyone you deal with and which are about honesty, openness, fairness and consistency. It is of course easy to say this, but much more difficult to implement and the larger the business the more difficult it becomes to enforce. If you run an organisation which is small enough for you to take all the decisions then you can act on an ad hoc basis based on your own principles but once an organisation is a size where delegation is required, values have to be clearly stated, communicated and enforced. While I don't have a huge business, I employ over 2000 people in 5 different countries. There is no way that I can become involved in each individual transaction which affects the business, but what I can ensure is that my general managers are very

clear about what I expect and are brought up sharply if they deviate from the standard.

Nearly all corporate entities have mission statements which reflect the values of the business; they are usually argued at length at committees and generally end up as bland statements which then go up on notice boards and are paid lip service to. Most of them end up being very similar.

But it is not just what you say which is important, it is essential that what you do and how you do it is reflecting what you say.

A business requires efficiency and discipline if it is to be successful and in my business, ideally this has to be achieved by creating a sense of belief in what we are doing and training and motivating our people to deliver it.

In a luxury hotel, the most important part of the product is the staff and the service they deliver to the customer. By the nature of the economics of a hotel and the requirement

of large numbers of staff, it is not possible to pay the highest wages available in the market. In fact our lowest paid employees are the ones who interface the most with the customer. I try to pay wages at the top end of the hotel industry market and above any minimum wage where there is one. But employment is not just about pay, it is also about a sense of belonging, a camaraderie, a common sense of purpose and a satisfaction from a job well done. It is also about having a close alignment between personal values and corporate values.

We are a family business with strong family values. We work very hard to create a very inclusive environment where people look forward to coming to work. We put a great deal of effort into the induction, training and development of staff and through surveys, regularly measure the level of satisfaction with all aspects of their employment.

People who use my hotels tell me how friendly the staff are, how proud they are to work in my organisation and how well they do their job.

Labour legislation often gets in the way of good relations between employer and employee, particularly in those countries where it is overly biased in favour of the employee. In Italy for example, it is almost impossible to sack an employee on a permanent contract unless he himself is prepared to leave. This encourages employers to avoid permanent contracts as much as is legally possible and the only way to get rid of someone who is not performing is to make his life so impossible that he asks for a settlement to leave. In an industry where the staff are the most important part of the product, this is a very sorry state of affairs. In business, it is inevitable that wrong choices of people are made or circumstances change to make an employee ineffective and there has to be a parting of the ways. But there is no reason in these circumstances not to treat the individual with respect and consideration in the dismissal process. I had to sack many people in my life but

have nevertheless remained on friendly terms with most of them.

It goes without saying that customers are important to my business and there has to be a strong customer orientation and service culture in my company. Some businesses think they can get away with treating their customer with disdain or simply pay lip service to the concept of service. Not us. A customer has the right to be treated with respect as do our staff. In a luxury hotel he is spending considerable amounts of money and is entitled to a high level of personalised service as a result. Our management and staff know this and are trained to act accordingly and I myself put a great deal of detailed time and effort into this. I have always encouraged customers to write to me directly and when they write to complain I make a point of investigating the complaint personally and dealing with the general manager concerned. If a complaint reaches me, it means that it has been improperly handled at the hotel level. A complaint is a godsend, it gives you the opportunity to put the cause right and make a friend of the customer for life.

When I first started my new business and I followed up on complaints my managers were very surprised. Now they treat complaints as seriously as I do and as a result I receive many fewer today.

I also like to treat my partners and suppliers with the same consideration. People should not just work with you or for you for the fee you are paying, but because they are excited about what you do and want to be a part of it. In that way they are as much part of the business as those who work in it.

I believe that to behave correctly and with integrity in a business is self serving in any case and my experience is that this is recognised and repaid. The financial crisis left me very exposed, I had too much debt, and after the Lehmans implosion in the Autumn of 2009, my sales for the next 2 months were 40% below the previous year. My bankers could have pulled the rug but I think, largely due to my reputation of integrity and delivering what I promised, they stuck with me and, as a result, the business has not

only survived, it is now thriving and the bank has been repaid.

Of course in business you cannot be naïve. You are often operating in shark infested waters and not everyone you deal with has the same principles as yourself so you have to be alert to protecting your own interests. I have always spoken and acted in good faith, I have never been one for playing games and as I have grown older, have become more and more direct as I find it saves a great deal of time. I have always been polite and courteous in the way I deal with people and none of this has worked against me or prevented me from being successful.

I am delighted to have two daughters already in the business and I hope my son who is the youngest, will also join in due course. They will hopefully ensure that our personal and family values will continue in our business – the same values I inherited from my father, which he also inherited from his.

As I said morality in business is driven by personal values and standards. The leader has to set the tone; and actions, up and down the organisation, speak louder than words to encourage the proper behaviour and ensure the values are upheld. The world we operate in may be a little impurer but that is not an excuse for business to allow itself to be deflected from behaving in a proper way.