Trusting by prohibiting control

When a bank confounds

the dominant economic theories

“*Concern with rules is the death of action... It is futile to prepare ready-made rules that will never be exactly adapted to the conditions in which we will need to apply them…*

There is no action that does not involve preparation — certain means that are mobilised — [and] that does not pursue certain ends. But at the instant it is accomplished, it is no longer a slave to these means, nor to these ends. It is responsible for overcoming them... It is a new creation that supersedes all models and becomes its very own model.”

Louis Lavielle, *Règles de la vie quotidienne* [1]

“*Stop trying to borrow wisdom and think for yourself. Face your difficulties and think and think and think, then solve your problems yourselves. Suffering and difficulties provide opportunities to become better. Success is never giving up*.”

Taiichi Ōno, inventor of the Toyota production system

Mobile phone

Do you have the mobile phone number of your family doctor, your lawyer or your bank advisor? By the time you read these lines, this may have become the norm, but it is not yet the case at the time of writing. And yet, these people are there to meet life's most essential needs: our health, our rights and our material security. Perhaps you would accept such a hypothesis for your family doctor, or even your lawyer, but imagine a bank that made the mobile phone numbers of all its customer contact persons, including the branch manager, available on its website, so that you could call them or message them if you should need to do so?

Some people would call this hellish, imagining employees having to take calls in the evening or at the weekend. It is a prospect that its quite conceivable in theory but runs into certain obstacles in practice. First, although we all have hundreds of telephone numbers stored in our telephones, we do not call them at every opportunity. If we were to do so at unusual times – as is also the case during business hours – it would be customary to ask whether we were disturbing the person in question. Second, there may be professionals who *want* to be immediately notified about serious problems or emergencies. By their very nature, such problems are rare and are better dealt with immediately, rather than tomorrow or after the weekend.

This is exactly what we were told by Peter Sturesson, who manages a branch of Handelsbanken – one of the main Swedish banks – in the Stockholm business district: "On Saturday morning, I keep my smartphone on my bedside table. If there's been water damage or a paving stone has been thrown through the branch office window, I prefer to find out about it immediately, because the branch is a bit like my home."[2] The same applies to customers who might consider it urgent to contact him on a Saturday. In other words, Sturesson and his associates impose no limits or conditions on the services they provide for their customers. On the contrary, they try to eliminate any obstacles imposed on customers by the bank's internal operating procedures. One day, Sturesson's branch office decided to move out of its street-level premises, of the type traditionally favoured by bank branches, and relocate to offices on the first floor of a vast 19th-

century building, resembling premises occupied by lawyers or asset-management consultants. This is because Sturesson and his colleagues believe that the bank's customers now want this type of service and relationship. They no longer need counters because they can perform all their everyday transactions on their mobile phones or computers. What they want is a relationship, and an attitude.

Once you have pressed an inconspicuous button by the entrance to the branch, someone meets you by the door at the top of the stairs and leads you to a meeting room, if you have an appointment, or asks you to wait on one of the sofas in the open space where all the account managers' offices are located. Everyone receives the same service, from the owners of large firms in the business district to ordinary retail customers who have decided to have their wages paid into this branch.

At Handelsbanken, "serving unconditionally" does not mean "ignoring economic criteria". Quite the opposite, in fact. It means making oneself available to customers, including by mobile phone, or even travelling to meet them if this is more convenient. Besides, having the mobile phone number of one's account manager signifies something else altogether: it means that there is no question of a customer being obliged to ring a call centre outside office hours. In any case, Handelsbanken does not even possess a call centre.

That said, while customers can "disturb" their advisors or branch manager on their mobile phone, the bank staff can do the same by calling their regional managers or even their CEO on their direct landline or mobile phone lines. This is perfectly logical. While the branch is wholly devoted to serving its external customers, the entire bank is also at the service of its internal clients – the branches.

Sturesson therefore has the number of his CEO – Anders Bouvin – but he rarely calls him. However, the CEO rang Sturesson during his first week in the job.

- "Hello, it's Anders", recalls Sturesson, who recognised the voice of his new CEO, who had also been a branch manager in the past. "I'm visiting some of our branches to find out how I can help you. Is it OK if I visit you on this date to meet you and your colleagues?"

- “Yes, but you’ll be arriving right in the middle of a busy customer service period. I’ll see about finding a few people to meet you”, replied Sturesson politely, trying to make him understand that the timing of his visit coincided with a very busy time for the branch.

He managed to round up just half a dozen or so of his 20 employees, as the rest were busy serving their customers. To put things in different terms, as everyone serves their customers unconditionally, a visit by the CEO is not a sufficient reason to postpone one or more appointments.

On the day of the visit, seated at a table normally used for meetings with customers, the CEO began the meeting without preamble: “How do you operate and what would you like me to do?” And to make his question even clearer, Bouvin added: “What should my goals be? What do you want me to do? And what type of bank do you want us to become in the future?”. In this manner, the CEO, who had just been appointed by the Board of Directors, was travelling from branch to branch and asking them to “define” his job description or tell him what actions he needed to implement. On top of that, he wanted the branches to tell him what the bank’s mission should be, by defining outcomes to guide his actions.

“He didn’t introduce himself; he didn’t start by telling us about *his* goals for the bank or *his* programme”, revealed Sturesson. “On the contrary, we did the talking and he took notes. He always takes notes.” This could be used as a very simple test to determine whether a CEO is a traditional leader or a “servant leader”: when meeting employees – especially those in the field – does he or she talk or take notes?

But Anders Bouvin is not the first CEO/leader to place himself at the service of Handelsbanken’s branches. Long before Bouvin contacted him, Sturesson had previously spoken by telephone to another CEO who had asked his opinion. This was back in 1995, when Sturesson was just 28 years old. He had just been appointed manager of a branch in Northern Sweden when his telephone – a landline at that time – rang and an unfamiliar voice started talking:

- “Hello. I’m Jan Wallander. You might have heard of me? I used to work for the bank.”

- “Yes, of course”, replied Sturesson who, like all the bank’s employees, knew the name of this legendary CEO who, from 1970 onwards, had radically transformed the bank’s organisational procedures and made it the best bank in the country.
- “As you know, I’m retired, but I still have lots of contacts. To be specific, I’ve been contacted by a firm located in the same geographical area as your branch. They want me to present a conference for them on how to manage an enterprise without a budget”, explained Wallander, referring to an important aspect of the transformation carried out at Handelsbanken. “It’s an interesting opportunity for me and it’s a good way to spread Handelsbanken’s message”, continued the former CEO. “But I’m a bit concerned about doing so in the area covered by your branch. Would you be OK with me doing this?”
- “Yes, I think it would be OK”, replied Sturesson at the grand old age of 28.

This conversation is highly symbolic. It does not matter that Jan Wallander had been CEO of the bank, nor that he had transformed it into a European benchmark and been one of the most influential thinkers in the Scandinavian business world. He still considered it important to ask Sturesson, who had just one year of experience in branch management, for his permission. In other words, Wallander, who had transformed the bank he used to lead by placing it at its branches’ service to enable staff to serve their customers unconditionally, could not fail to apply this principle to himself, even if he had already been retired for several years at that time.

The branch is king

Sweden is a constitutional monarchy. Although King Charles XVI Gustaf no longer has any political power, he remains Sweden’s Head of State. Handelsbanken has no problem with this. Quite the opposite. And not only because the CEO’s office window looks out on the royal palace. In truth, the bank is one of the key factors in the kingdom’s stability, without the king or his subjects being fully aware of this fact. Inside the bank, however, the Swedish “crown” (its currency, the krona) is reserved for another use.

You might rightly say that this observation is not very original: in a bank, the customer is king. Any enterprise – and particularly a service corporation such as a bank – must do its utmost to serve its customers. However, once this theoretical principle has been established, the organisational system established to provide this "royal service" will still need to be defined. In concrete terms, the enterprise must define organisational principles which, if followed unfailingly by its staff, will guarantee "royal" service for its customers under all circumstances. In this case, it does not concern specific practices or methods relating to a call centre, a response protocol, opening times, a digital platform, delivery logistics or after-sales service. Here, we are talking about principles that guide and ensure the consistency of all actions performed by the staff, as is the case for Daniel Abittan's absolute injunction at Chateauform' and the 5Rs at Fruit Guys. John Nordstrom, CEO of a chain of North American department stores that is regularly ranked as one of the best firms on the continent for customer service, explains a key principle to newly recruited employees:[3] ''If I'm a sales assistant in the store… then I'm free to find new ways to provide extraordinary customer service. I know I won't be criticised for taking care of a customer. I'll only be criticised if I don't take care of a customer.'' And Danny Wegman, CEO of the American chain of hypermarkets Wegman's, which is renowned for providing the best customer service in the mass retailing sector, asserts the following principle, not without a dash of humour:[4] "We offer a telepathic level of service. The employees, in whom we place our trust, make their own decisions, regardless of the situation they find themselves in with their customers: no customer should leave our store in a dissatisfied state."

At first glance, the major principles guiding the actions of Handelsbanken's staff run counter to the idea that the customer is king. Indeed, since Jan Wallander launched the radical transformation of this bank in 1970, the branch has reigned supreme.

Although he was a Doctor of Economics, Wallander was not following a complex theory when he decided to transfer all the power to the branches. He was simply following the principles of common sense: "We never see customers at Head Office; the only place you see them and can create a long-term relationship with them is at the branch. As a consequence, Head Office must relinquish its central power and place itself at the service of the branches which, from now on, will have sovereign powers to do everything they can to satisfy the customer". The implementation of "the branch is the king" principle – or, in its alternative wording, "the branches are the bank" – had two interdependent strands: the transformation of head office and all central departments on the one hand, and the transformation of the branches on the other. To put it more simply, as long as head office is the seat of all power, the scope of the branches' actions will be restricted. That is why Wallander started by transforming the head office in 1970. Its new organisational structure was put in place within a few years and remains unchanged at the time of writing. However, it took longer for the branches to take ownership of their sovereign powers. Here is a detailed account of these two transformations.

The Handelsbanken revolution

Sweden saw several revolutions in the 1960s-70s. The outwardly cold and austere Swedes welcomed the sexual revolution with enthusiasm. Anita Ekberg, Fellini's muse and a fantasy figure for so many Latin males, was one of the many symbols of this revolution, as was Ingmar Bergman. This Swedish director also took part in another revolution – cinematographic – at this time, informed by his detailed study of human relations with films such as *Cries and Whispers*, *The Touch* and *The Silence*. The revolution instigated by Jan Wallander at Handelsbanken and named "Stopping the Freight Train"[5] may have been less romantic, but its impact was equally important, especially in Sweden.

Wallander was no stranger to revolution. In 1960, while still a researcher in Economics, specialising in the banking sector in particular, he was offered a post as CEO of a provincial bank, Sundsvallsbanken. The success enjoyed by this establishment under his leadership attracted considerable attention. Ten years later, in 1970, Handelsbanken was beset by difficulties, and its Board of Directors decided to recruit Wallander as CEO.

Wallander had previously studied the traditional organisation systems of large enterprises. He quickly determined that the main cause of the bank's difficulties was its organisational system. He compared it to a "heavy goods train thundering through the night", specifying that "head-office functions were the locomotive driving this train". As he was convinced that this train was heading in the wrong direction, Wallander quite logically decided to stop it. In concrete terms, he put an end to the activities of the central departments. As everyone knows, without a locomotive, a train grinds to a halt.

It is perfectly rational to consider that a bank cannot abolish the activities of its central departments without immediately going out of business. But as we have stated, this was a true revolution and some of its transformations are described below:

- The central departments were no longer allowed to send memoranda to the branches, apart from those concerning everyday tasks or government regulations (previously, each branch received 12 policy or project memos on average per day from the Marketing, Sales, Finance, Purchasing, HR, Legal, Development, Planning, Strategy or other departments);
- All budget preparation and reporting activities were eliminated;
- Head-office committees and working groups dedicated to business development were wound up and their coordinators were asked to summarise the results obtained thus far on an A4 sheet of paper (this concerned 110 committees and working groups);
- Work on the new information system (involving several hundred people) was stopped;
- The work of the Long-term Planning and Strategy department was concluded;
- The work of the Marketing department, which was preparing a new campaign, was ended (until then, Handelsbanken had been one of the country's biggest advertisers, but the department quickly shrank from around forty people to just one).

Do we need to continue? We imagine that the revolutionary nature of these measures relating to the transformation of head-office operations is now perfectly apparent to the reader. However, Wallander, was not yet convinced that he had brought the train to a complete standstill. He implemented a final measure whose consequences were felt far beyond the bank's head office.

Centenary celebrations are a moment of great pride for any enterprise. This is understandable. As we have already mentioned, research tells us that only 1% of firms celebrate more than 40 years in business.[6] Handelsbanken – then one of the country's leading banks – was preparing to celebrate its 100th anniversary, and was far from being a moribund survivor. Moreover, the oldest employees could still remember the grand celebrations marking the 75th anniversary of the venerable institution. With preparations in full swing and the employees betting on the size of their bonuses (the bonuses for the 75th anniversary celebration were still fresh in people's memories…), Wallander dropped a bombshell by announcing the outright cancellation of all centenary celebrations. The train ground to a halt, with the squealing of its brakes heard far and wide. In this way, as he personally put it, Wallander freed up the time and space required to develop the new organisational system of a bank dedicated to serving a new purpose.

A radical organisational system

After reading about everything that Wallander dismantled, and if you are familiar with the philosophy of the "freedom-form company", you might expect Handelsbanken's organisational system to be very similar. Indeed, during this same period — the 1960s — Robert Townsend, an American CEO, described in his bestselling book how he had established a freedom-form company in another service enterprise, the AVIS network.[7] It is true that the organisational system introduced by Wallander shares certain fundamental principles with the philosophy of the freedom-form company, such as subsidiarity. However, Handelsbanken's structure was not totally compatible with this philosophy. The main reason for this is that Wallander was not seeking to develop an organisational system in which most of the employees possessed total freedom and the responsibility to undertake any action that they personally saw as the best way to dovetail with the corporate vision, which is the definition of the freedom-form company. This is not to say that Wallander wanted to reduce the employees to mere executors of orders. He simply situated the freedom and responsibility for action in this new organisational system at a different level by assigning it to the branch manager, who, as a consequence, assumed the responsibility to do everything for his or her customers. To illustrate this new organisational system, let us now examine one of the bank's main activities: granting loans.

Who makes loan decisions and what is the former decision-makers' role?

Loan applications, whether concerning consumer credit for retail customers or substantial loans for major enterprises, are processed directly by the branch. In this way, the branches handle 90% of applications. The remaining 10% of applications, whose value or complexity exceeds the management capacities of branch managers, are transmitted to the regional banks. The bank is divided into eight regional banks, each composed of 50 to 60 branches. A regional bank has the power of a provincial bank. It is capable of competing with the major banks but can maintain close relationships with each of its branches at the same time.

There was no doubt that if branch managers became the kings (of credit), the bank's leaders would be unable to retain their sovereign power. Logically, Wallander was the first to relinquish this power. To start with, he surrendered his own right, as CEO, to approve loans. However, in the past, the CEO would not make these decisions alone, but with the approval of an Executive Committee of 20 people, and for loans exceeding the equivalent of €10 million in value, a second approval – given by the Board of Directors – was required. In 1968, for example, the Executive Committee processed 1,553 credit applications and the Board of Directors handled 869 of these. The Executive Committee was also responsible for some of the bank's other centralised decisions.

Wallander decided to change the roles of the Executive Committee and Board of Directors. The 869 applications handled by the Board of Directors in 1968 dropped to just 406 by 1975. The number of applications processed by the Executive Committee was also significantly reduced. In 2002, although Handelsbanken was a much larger organisation than in 1975, the following statistics were recorded: the branches processed 390,000 of the 400,000 credit applications received, , the regional banks (now 11 in total) handled 10,000 and the Executive Committee just 800. In practice, only 40 to

50 decisions were made at plenary meetings of the Executive Committee during the year, and the remainder were decided by a special committee.

Were “plenary meeting” really still held in 2002, in a bank that was radically transformed back in 1970? Yes indeed, because although he was convinced that the centralised power of the Executive Committee was incompatible with the sovereign power of the branches, Wallander decided not to abolish it completely. It could be said that he wanted to avoid pushing the locomotive’s “power unit” too hard in his attempt to stop the train completely. He simply put an end to the regular Executive Committee meetings, and because the Executive Committee’s real powers were exercised during these meetings, this led to the gradual erosion of these powers. Radical change does not mean total disruption, nor should it give opponents the power to prevent others from moving forward.

However, in the wake of all these upheavals, and thanks to the time that he had suddenly freed up by reducing the number of Executive Committee meetings, the CEO did not suddenly decide to take up golf or go salmon-fishing in the Baltic Sea. On the subject of golf, remember the story about the business model adopted by banks at that time, referred to as the “3-6-3” model: “You borrow at 3%, you lend at 6% and at 3 o’clock in the afternoon, you play golf”. Wallander had nothing against golf, but he preferred having conversations, dining out and travelling, which is how he started to occupy his newly acquired time.

He introduced monthly meetings with all of the regional managers, starting in the afternoon and continuing through to the evening meal. At first sight, this idea bore a strange resemblance to a revamped Executive Committee structure, which could be renamed the Regional Management Committee. However, several key differences remained.

No decisions were made during these meetings and no minutes were drawn up. They had a different purpose. They were exclusively devoted to conversation, to exchanging information and agreeing on common principles to be adopted for the resolution of different problems. It should be remembered that the vast majority of decisions are made in the branches and the remainder at the regional level.

Every month, following these conversations, the CEO wrote a letter to *all* employees, in which he expressed his personal opinion on the current issues and provided information about different developments taking place in the bank. Each of the regional managers followed suit by writing similar letters, but only to the branches in their regions.

In addition to the conversations accompanied by meals, others were carried out while travelling. Every autumn, Wallander set off to visit the regions. There was nothing unusual in this, except for the fact that he set out for two days on each occasion with one goal: to listen rather than inspect. In practice, the first day was set aside for the regional management team to describe the challenges facing them and to explain the type of support they required in order to progress. The second day was then devoted to visiting three to four branches. Over coffee and cake, Wallander chatted to branch employees about their perceptions of the market, the competition and their challenges. This explains why there is nothing surprising about the retired Wallander later continuing to contact local branches when his activities brought him to the areas in which they operate. Perhaps he wanted to take the opportunity to observe how the branches still managed to hold the sovereign powers at Handelsbanken?

What about the model?

After learning a little about the new organisational system implemented by Wallander at Handelsbanken, it is natural to want to discover all the details. We will present some of them but cannot describe the "model" because there can be no such thing. The organisational model is a delusion. It gives the impression of knowing everything about the organisational system of an enterprise, but this is impossible, both now and especially in the future, because any efficient organisational system must evolve in order to adapt to its environment. What is more, the very term "model" implies that it can be transposed and copied. This idea leads to what are known as "change" or "reorganisation" projects based on a new model. As the research tells us, the majority of these projects fail. There are two reasons for this. First, for any existing organisation, there are organisational and cultural standards which must inevitably be considered in any transformation. However, the **new** model makes a fresh start by doing away with existing organisational and cultural practices. The introduction of such an organisational model is therefore often perceived by employees as a form of “social engineering” imposed by the hierarchy. They naturally resist it and cause this change to fail. Peter Drucker’s maxim, that “culture eats strategy for breakfast”, i.e. culture will always come out on top against any strategy, also – and some would say especially – applies to change strategies. Second, all models ignore the leadership. Indeed, if we are talking about a change project entailing the implementation of a model, it is hard to justify the transformation being guided and embodied by the leader of the enterprise. A senior manager or consultant in charge of a change project logically becomes responsible for it in everyone’s eyes. Consequently, a project that is declared to be “strategic” ceases to be, as it is no longer guided by the boss of the enterprise. As Taiichi Ōno states in the epigraph to this chapter, rather than borrowing other people’s models, leaders must face up to their own difficulties by devising their own solutions to them – often under very trying conditions – and developing their own unique ways of operating.

Models certainly exist in the business world. Handelsbanken followed one before 1970. In these types of mechanistic or hierarchical bureaucracy models, everything appears to operate in a manner that is both well-oiled and inflexible at the same time. Implementing such models only requires assistance from experts and once this implementation has been completed, the “machinists” based at head office keep the mechanism running. There is no need for a leader or leaders. But Wallander did not want a mechanism operating like a monolithic freight train chugging along through the night. He wanted a fleet of small trucks that could be adapted to the terrain, were always on the move and could find the best route to follow.

Consequently, rather than describing a model, Wallander established several “philosophical” principles, which each region and each branch could incorporate into their organisational systems as they saw fit. This prompted the regional managers to choose new branch managers who shared these principles and then entrusted them with the development of their branches. As surprising as this may be to civilians, this is an established military approach used by the best armies, which make their officers in the field responsible for finding solutions that will accomplish the high command's "plan" (vision). General Gil Fiévet, who taught military strategy at the Ecole Supérieure de Guerre for several decades, explains the situation in the following way: "Military principles are not meant to be applied".[8] To explain this surprising assertion, Fiévet then draws an orthogonal graph with horizontal and vertical axes: "Here are the principles. In military strategy, we are talking about the concentration of forces and the economy of means." He then draws a curved line in the middle of this graph: "Here is the strategy. Each time, it's a unique creative act that is dependent on the circumstances. It's not a question of applying the principles." The principles provide a general framework for a multitude of unique actions undertaken by the actors in the field.

When describing his approach, Wallander referred to decentralisation in contrast to the extremely centralised approach adopted by banks at that time, but Handelsbanken's approach should not be confused with what is sometimes referred to as a "decentralised model". This model, introduced with a certain amount of success into several major companies, gives the operational entities (BUs) a degree of autonomy, while head office retains much of the power. This does not apply to Handelsbanken. Its head office has very little power because this has been massively transferred to the branches. This is such an important aspect for the bank that the predecessor of Bouvin, the current CEO, was dismissed after just 18 months of service. Pär Boman, Chairman of the Handelsbanken Board of Directors, announced the former CEO's departure in the following statement: "All managers at Handelsbanken – and especially the branch managers – must possess a very high degree of autonomy. As a consequence, being the CEO of this bank requires a special kind of leadership, which is much more complex than that found in traditional management.". [9] This board of directors' decision was therefore not made on grounds of poor performance or ordinary professional misconduct. The CEO's sole mistake was in wanting to introduce a new hierarchical level centralised at head office, because it automatically curbed the "very high level of autonomy [that the] branch managers need to possess." Attempting such a move *is* a case of professional misconduct at Handelsbanken.

That being said, one often hears the bank's employees talking about the "Handelsbanken model", and Jan Wallander referred to the "Handelsbanken Way". In one sense, this mixture of philosophical and economic principles effectively served as a model *within* the bank, by helping to define the branches' and head office's activities. Like DNA – another term used at Handelsbanken – this set of principles is internalised by all stakeholders. When it is not, the employee in question is rejected by the "Handelsbanken team", regardless of whether he or she is a customer account manager or the CEO, as we have seen. This is what Louis Lavielle, in the epigraph to this chapter, called "*a new creation that supersedes all models and becomes its very own model*."

We will now describe this handful of principles.

On what grounds?

The main principle justifying the introduction of this radical organisational structure, in Wallander's eyes, was the adoption of a modus operandi that is compatible with human nature, or at least with Wallander's conception of human nature. He called this the principle of "decentralisation", but it can be also referred to as "subsidiarity". We have already stated that Handelsbanken's organisational system and the freedom-form company share several common principles, namely beliefs about human nature and more specifically concerning the universal needs of human beings. Wallander, who was inspired by the works of Maslow, McGregor and other psychologists, considered these needs to be trust and respect. He therefore concluded that a firm's organisational system should seek to satisfy rather than deny these universal human needs. That is why he transformed the organisational structure and based it on autonomous branches responsible for making their own decisions. This remains Handelsbanken's guiding principle today. The bank's current CEO Anders Bouvin described it to us in the following way: "The bottom line for Handelsbanken is our humanistic perception [of our employees]: the vast majority of them want to give the very best of themselves, which they will do, unless they are prevented from doing so by head office". And to prevent us from erroneously considering this principle to be synonymous with a laissez-faire approach, Bouvin stipulated: "If you don't believe in this, if you consider that the employees pose a risk and that they will transgress whenever they have an opportunity to do so, then you must of course control them by any possible means… Head office will then place multiple constraints [on the branches' activities]. But here, as we like to say, we work *with* human nature rather than *against* it."

You may be surprised by how important this humanistic approach based on unconditional trust in employees is to the "Handelsbanken model", but in reality, it is a prerequisite for encouraging the bank's employees to trust their clients. If employees themselves are perceived as a risk to the bank, it is perfectly normal for them, in turn, to see the clients as an even greater risk, and they will be inclined to exercise even more "control" over their clients than that to which they are personally subjected. This makes it easier to understand why so many "customer-centric" projects that do not question the validity of hierarchical bureaucracy systems which are fundamentally distrustful of employees, end in failure.

It is no coincidence that the beliefs of the bank's current CEO, set out above, echo those of his predecessor, Jan Wallander, who said these same things during his leadership. Indeed, this is how the primary role of the CEOs who have since assumed leadership of the bank is perceived at Handelsbanken. As Lars-Kenneth Dahlqvist, Head of Investor Relations told us, they have all understood that "the challenge is not to arrive with a new philosophy but rather to manage – in a new environment – the Handelsbanken model, which has proven its worth over time". This role might initially appear to be much simpler than turning around or transforming an enterprise. However, preserving Handelsbanken's DNA, "which has proven its worth", while adapting it to the current context, has never been an easy task. Everyone at the bank remembers the arrival of the Internet in the banking sector in the 1990s and the pressures associated with rolling out the bank's and all its branches' websites in a centralised fashion. Under the leadership of the CEO at that time, Handelsbanken rejected this approach and allowed each branch to create its own website, while providing support and supplying the technologies required.

Wallander's second principle, requiring the transformation of the bank's organisational system, is economic rather than philosophical in nature, as it concerns profitability. Profitability is certainly the central economic principle for most enterprises – especially banks, but this notion usually has a very precise meaning: maximising profit. This is not the economic principle proposed by Wallander. He simply stated that profitability should be above the market average. Despite its apparent simplicity, this is actually a very sophisticated principle.

All in all, this principle requires the profitability of Handelsbanken's return on assets (ROA) to be higher than the average ROA of competing banks. Within the bank, a similar principle also comes into play: each region must aim to achieve an operating ratio (costs divided by net banking income[10]) that is higher than the average figure for the other Handelsbanken regions. Finally, this principle requires each branch to consistently aim to achieve a higher cost-to-sales ratio than any other branches in its region. Resembling a simple indicator, this principle of profitability completely revolutionised the bank's organisational system, from the moment it was introduced by Wallander.

Budgeting and internal reporting became irrelevant overnight. Indeed, as Wallander liked to explain, the profitability of half the regions or branches anywhere and at any time was below average. This prompted them to do everything in their power to climb into the top half of the rankings. At the same time, the entities currently in the top half had to increase their efforts in order to keep their "rivals" at bay. This meant that the bank's overall profitability could only rise, in continuous fashion.

Now, if you are thinking that you have finally found the magic formula to keep your enterprise performing at a high level for the foreseeable future, and are feeling the urge to apply it immediately, we advise you to remain patient for a little longer. Follow the example of other bosses who became aware of this strategy but did not rush to implement it. This is because they had an inkling that something was not quite right.

It is not hard to imagine what the branch managers of a traditional bank would do if you used such an indicator to evaluate them, especially if their bonuses and promotions depended on it. They would be paralysed. To start with, they are very often unaware of how profitable they are. They might know their net banking income (the equivalent of turnover for banking activities), even if they generally tend not to deal with many of the biggest clients in their geographical area which are managed centrally, due to the amounts committed being too high. In passing, it should be noted that the majority will lament this “loss of turnover”, but a minority will find “creative” ways to hold onto it at any cost. For example, if a client asks for €550,000 in credit and this amount exceeds the branch’s limit, which is set at half a million, its manager might propose two slightly staggered loans of €275,000 (actual example), thereby flouting head office’s credit policy. However, the most serious consequence is, of course, the branches’ ignorance of the costs. In fact, an ordinary bank’s branches are not operational entities managing their own profit and loss accounts, which reflect all their costs: real estate, personnel, financing, etc. If the branch managers do not have control over all business within their area and if they are not aware of all their costs, measuring their performance can be compared to measuring the speed of a car whose driver has no control over the accelerator or the brakes. Handelsbanken did not suffer from such an inconsistency because its fundamental transformation was not based solely on this principle of above-average profitability. What made this transformation so radical was the new organisational system that put all the power in the branch managers’ hands.

Branch managers – lords of their own domain

At Handelsbanken, each branch possesses its own profit and loss account. As a consequence, each branch manager has the freedom and responsibility to act like the boss of an SME or as an entrepreneur. We have already stated that they have the authority to decide on the location of the branch, to choose the employees they want to recruit, and to remunerate them as they see fit. However, the greatest freedoms and responsibilities for entrepreneurs relate to the customers. At Handelsbanken, the branch managers decide what products the branch will offer, at what prices, and which customers will be targeted and served. The bank has divided the whole of Sweden into 420 geographical sectors, and Handelsbanken’s figurehead – the holder of all powers – in each of these areas is the branch manager. Anne-Marie Dahlstedt, the manager of a branch located in Ostermalm, a suburb of Stockholm, says that “With the freedom [to run my branch as I see fit] comes responsibility, but for my colleagues and me, this is the best part; it’s why I work here.”[11] She and her colleagues decide whether to grant 70% of loans and make certain decisions on the same day. They are also responsible if loans are not repaid, because losses have to be recognised in the branch’s profit and loss account. This policy is bearing fruit, because despite the fierce competition in this affluent suburb, her branch counts 45% of the 100,000 residents and 60% of the 1,800 enterprises among its customers. This is what is known as “overpowering the competition”.

Branch managers even decide how their branches are furnished. You might be wondering how the furniture chosen for a branch could possibly relate to entrepreneurship and the customer. Branches are traditionally furnished in a somewhat drab style, which contrasts sharply with the sophistication seen at headquarters. But the opposite applies at Handelsbanken. At head office, the furniture tends to resemble models found at IKEA, and you might even notice some rickety shelving. Only the magnificent view of Stockholm Bay adds an incomparable touch of prestige to this workplace. In response to our astonishment, our host Lars-Kenneth Dahlkvist, who met us in an office formerly occupied by one of the bank’s top executives, told us quite simply: “It’s perfectly normal, because customers never come to head office”. Just a few hours earlier, we had been admiring the exquisite furnishings and designer decorative scheme in the reception area of a branch in the Stockholm business district that we were visiting. Its manager considered that the customers *needed* these furnishings. Another branch manager also confided that he had always dreamed of being an entrepreneur, and that he felt like he had become one since his appointment. It has to be acknowledged that becoming a bank branch manager and realising one’s dream of becoming an entrepreneur could be seen as highly paradoxical.

That said, the branch managers do not hold a monopoly on autonomy and responsibility. In turn, they pass these requirements on to their customer account managers. Everyone is familiar with the metrics used for measuring performance: the branch's operating ratio compared to the average of all the other branches – a ratio that everyone strives to keep as low as possible. It should be noted that the customer account manager's role at Handelsbanken is not limited to arranging new loans; it also involves monitoring them and, in very exceptional cases, managing the recovery of receivables, because at this bank, the cost of bad debts is not picked up by head office, it is included in the branch's balance sheet.

One might then consider that the real secret to this bank's success is very simple: it only lends to rich people. The bank readily acknowledges this but expresses it in a slightly more subtle manner: "We don't lend to people who want to become rich or need money, but rather to those who don't want to become poor and don't need money". Having said that, there is a degree of truth in the assertion that for entrepreneurs, Handlesbanken's customer account managers are much too cautious. Indeed, they take pride not so much in the money they have made for their branch but in the money that they have *not spent* thanks to their restraint, and that they have *not lost* thanks to their cautious approach. In other words, the customer account managers have complete freedom and responsibility to grant loans, which they exercise by always keeping the customer's long-term interests in mind. Indeed, granting large loans to customers presenting risks of insolvency would probably cause them problems for the rest of their lives. On the other hand, lending them less or nothing at all would do them a much greater service in the long term. This – the customer's long-term interest – is the reason why Handelsbanken considers it unacceptable to define a "tolerable" level of bad credit. The bank aims for 0%. Admittedly, it has never achieved this level, but its loan loss rate is 0.04%, one of the lowest in the world. However, any pride felt by Handelsbanken's employees cannot stem from the money they might have earned for themselves, because Handelsbanken does not grant bonuses.

What about incentives?

That's right; in this bank, there are no bonuses for top management or employees — not for anyone. This is simply part of the bank's HR policy. The absence of bonuses is directly related to the bank's principles. We should remember that its main principle is to satisfy the universal needs of the men and women who work for it: particularly trust and respect. Bonuses, stock-options, and other incentives, which psychologists term instruments of extrinsic motivation and employees call "carrots", are not intended to satisfy these universal needs. Paying out bonuses is not how the enterprise proves that it trusts its employees to make decisions or pays them the respect they are due as professionals, thus enabling them to give the best of themselves. The lack of bonuses also makes it easier for Handelsbanken to implement its third principle: profitability.

This final assertion appears to contradict the practices of numerous firms, which apply the famous "agency theory". In practice, these firms consider that the best way to increase their profit (or their share value) is to link it to the variable share of the earnings of stakeholders in the firm. Handelsbanken takes the opposite view. To illustrate this, Wallander refers to the examples of executives and managers who, in pursuit of bonuses, have made bad decisions for their banks (excessively onerous acquisitions, impaired loans, etc.) in order to boost profits or share values in the very short term. As for Lars-Kenneth Dahlqvist, he mentions the practice, commonly encountered in the banking sector, of linking the variable share of account managers' earnings to the volume of new loans that they grant. This is not the case at Handelsbanken, which wants its account managers to focus on customer satisfaction rather than the volume of their commitments, and to take a long-term rather than a short-term view. The absence of profit-related bonuses encourages staff to adopt such a focus. In other words, as Handelsbanken sees it, bonuses based on the volume of new loans granted would distract the account managers' attention from the customers' real needs. They would be exploiting their customers rather than serving them. The majority of customers would soon sense this and would act accordingly from the outset. It is true that certain customers will always be willing to accept a loan offer that is too costly for them, which they will only realise when it is too late: when they are over-indebted or insolvent. That being said, Handelsbanken's account managers do benefit from a type of bonus to reward them for their performance, but this is paid… much later.

Indeed, the bank provides a profit-sharing plan, consisting in payments into a pension fund, called Oktogonen, for all employees if the bank has been more profitable than its counterparts at the end of a financial year. Information about the profitability of all regional branches and the bank as a whole is available to all. However – and as paradoxical as it may seem, because it involves money – this is a practice that aims to meet the universal psychological need for respect. It should be borne in mind that the money is only paid into the fund for all employees if Handelsbanken has been more profitable than average in relation to the competing banks. As for the sum paid, it is *the same* for the CEO and account managers alike – in complete contrast to a bonus calculated in proportion to the salary. Wallander, who introduced this profit-sharing scheme, stated that the banks, which have the same information technologies and are subject to the same regulations, are working to satisfy the same customers' demand. In this way, if one bank is more profitable than another, this can only be attributed to its' employees better performance. Consequently, Wallander considers it fair to pay them a proportion of these "additional profits". In other words, these payments into the pension fund in equal proportions for all staff are a way for the bank to say "thanks" for the superior quality of work that everyone has performed within the scope of their responsibilities. Hence the equal share, bearing no relation to each person's salary or to their relative contribution to profitability. However, it should be noted that this expression of respect may correspond to the equivalent of 2 to 3 additional months of wages for staff at the start of their careers.

The specificity of this payment – into a pension fund rather than as remuneration – should also be emphasised. Indeed, the Oktogonen pension fund invests all its assets in Handelsbanken shares, which makes it, and therefore the employees, the bank's biggest shareholder, at 10.3%. With the knowledge that Handelsbanken shares are among the world's best in terms of their financial performance, this is quite a boon for employees. But Oktogonen has another two key roles. First, it has a stabilising influence on the shareholders' agreement. Second, given that employees cannot withdraw their money until they are 60 years old, this naturally makes them much more concerned about acting in the customer's long-term rather than immediate interest. For example, instead of granting them a risky and excessively high loan with a view to pocketing a bonus indexed on the volume of sales, it will be in the employee's interest to ensure that the customer repays the loan in full and remains solvent in 15 years' time. In other words, despite resembling a purely capitalistic tool, Oktogonen is an organisational practice that promotes respect for the employees and serves the customer's long-term interests.

The lack of a variable share and the payment of the same bonus into the pension fund for everyone is just one of many Handelsbanken practices that run counter to those adopted by traditional banks. We will present many others later on, but before doing so, we would like to explain how Handelsbanken has confounded agency theory. This theory has nothing to do with the agencies of banks, i.e. their branches, and everything to with firms.

Adopting practices that confound the dominant economic theories

The dominant economic doctrine concerning corporate relations is called "agency theory". Although it has existed since the creation of the very first capitalistic firms, it was formalised by two American economists, Michael Jensen and William Meckling, in 1976.[12] Based on the principle that all economic players maximise their own interests, this economic theory stresses that the firm's interests must necessarily differ from those of its employees. The firm, like its shareholders, seeks to maximise its profits or share value, whereas the employees seek to maximise their earnings, which are necessarily "deducted" from the firm's revenue, and therefore from its profits. The situation is further exacerbated by the fact that the firm can only obtain incomplete information about its employees, starting with its CEO, whereas the employees can access comprehensive information about the firm, including its financial information. To prevent the employees, including top management, from making decisions exclusively in their own interests and to the detriment of the firm, contracts are drawn up to bind both parties. In practice, a variable proportion (in bonuses, stock-options, etc.) of the remuneration for senior management – or even other employees – will be linked to the firm's profits or share price.

However, it does not stop there. The problem is that the implementation of these mechanisms has no effect on conflicts of interests or the firm's incomplete information about its employees. As a consequence, it will establish monitoring practices, from the Board of Directors (or the appropriately named Supervisory Board) through to all types of reports and key performance indicators (KPIs). Beyond the very substantial cost of these monitoring practices, which eat into the firm's funds, it is reasonable to wonder whether they are actually effective.

You will surely know that KPI stands for "key performance indicator", but did you know how the Chinese have translated this acronym? This story was passed on via a Chinese subsidiary of a group listed on the French CAC 40 stock-market index. In line with its practices, the finance department introduced the Group's KPIs in its subsidiary at the start of the year. Towards the end of the year, one of the financial executives returned from China and told this surprising story to a colleague: "Do you know how our Chinese colleagues have translated KPI into Chinese? 'Kill People Immediately'!" Indeed, they had understood that the famous Key Performance Indicators were used as the basis for introducing "carrots" and "sticks". Who knows? Perhaps due to pessimism – or pragmatism – they were focusing on the possibility of being seriously "beaten" by the "stick" represented by KPIs.

When we tell this story, many people laugh. But it could also end in tears. Indeed, because nobody in the firm wants to be "beaten", they will do anything to avoid this possibility. They will also go to considerable lengths to obtain a bigger "carrot". In this way, as Douglas McGregor, a psychologist and one of the most extensive researchers in organisational behaviour puts it, for the traditional firm, the employee constitutes a risk, which it will try to control. The employee, on the other hand, will expend a great deal of energy on striving to "take advantage of the system". One of the consequences of this battle is that, in business, the majority of the figures are inaccurate.

This is central to the revolution that Jan Wallander launched at Handelsbanken. He observed that 30% of senior managers' time was devoted to reporting and budgetary monitoring. More than that, despite the astronomical cost of supervision for the firm, it in no way guaranteed that the employees would act in the customer's interest. Lastly, despite his Doctorate in Economics, Wallander did not embrace the major belief held by economists that material utility is the main driver of human behaviour. Instead, he adopted the ideas of psychologists such as McGregor, who declared that people seek to satisfy their human needs: trust, respect, self-realisation and autonomy. This perspective struck a much stronger chord with Wallander's own values and experience. He thus eliminated agency theory from his enterprise, and with it the associated budgets and reporting.[13] Rather than controlling them, Handelsbanken decided to trust its employees by giving them complete freedom to serve the customers' best interests. The first consequence was a dramatic drop in the bank's supervision-related costs. As Jean-François Zobrist, the former CEO of FAVI, stated, "trust costs a lot less than control", but above all, as we have previously mentioned, when employees serve the customer unconditionally, the results are inevitable: the firm has much better economic results.

Agency theory is certainly valid in the majority of enterprises. However, Handelsbanken has implemented an organisational system and practices to ensure that all its "agents" share the same values and principles. This means that the firm is not impacted by its imperfect knowledge of the employees, and instead of monitoring them – at great expense – it can trust them to make the best decisions in order to achieve the common vision. We can also understand why the numerous firms that have understood how Handelsbank operates have failed to take inspiration from it. To do so, they would have needed to relinquish their most fundamental governing beliefs and transform their operations by adopting radically different beliefs.

Agency theory is not the only dominant theory rejected by Handelsbanken. It also spurned another doctrine: the financialization of the firm. Given that institutional investors invest solely in order to maximise their financial returns (even if this perspective is starting to change, as we have seen), they will impose their expectations on the financial markets. Typically measured as a percentage of EBITDA, agency theory means that this market expectation will constitute the strategic target that is implicitly or explicitly imposed on business leaders. To attain this target, they will therefore devise a business model that — in theory — will meet the target of 12% EBITDA, for example. The next stage consists in adapting this model to a series of Business Processes, such as production, marketing, sales, purchasing, R&D, etc., which theoretically guarantee that the business model works in practice. Next comes a practical stage involving the financial, material and organisational resources required by each business process in order to operate. The final resources required for the processes to operate are human resources. This is a simplified description, of course, especially in light of the fact that the design of a business model is an iterative process that starts with the definition of a value proposition, as proposed by Osterwalder and colleagues in their Business Model Canvas approach.[14] What we want to underline here is the central importance of the EBITDA target. From start to finish, the financial performance target informs the manner in which the processes are created or the employees (unequivocally referred to as “human resources”) are managed. In this way, we can “incidentally” understand why financialization is the unintentional root of so many human problems. In fact, when one hypothesis of a theoretical model is called into question (interest rate or exchange rate, oil prices, cost of labour in a low-cost country, etc.), employees often become an adjustment factor that is used to prevent the model from grinding to a halt. Nonetheless, employees are still present in this model, even if only as an adjustment factor. There is another key player, however, who is too often neglected: the customer. Precisely so that it could make employee fulfilment and unconditional customer service its true priorities, Handelsbanken decided to abandon the dominant economic doctrines. These dominant doctrines had already been adopted by firms in the 1970s, and unfortunately remain in widespread use today.

Lastly, Handelsbanken has abandoned an economic doctrine that is very popular in the banking sector, namely “economies of scale” or, as Lars-Kenneth Dahlqvist calls it: “big is beautiful”. Admittedly, Handelsbanken also adhered to this doctrine in the 1960s. This theory, which emerged from industrial sectors characterised by long production runs such as the automotive industry, postulates that the greater the number of identical products you manufacture, the more your production costs will drop. In other words, the bigger you are, the more profitable you will become. Dahlqvist does not share this opinion, and he explains why in the following example: "If you rank around thirty banks according to their 'cost-efficiency' ratio — costs divided by net banking income (NBI) — you will see no correlation between the size of the banks and their ranking. If, however, you rank the banks according to their customer-satisfaction rate, a correlation can be observed but it is an inverse correlation: the bigger the head office, the smaller the number of satisfied customers." Dahlqvist adds that according to Handelsbanken's experience in the six countries in which it operates, including in the United Kingdom and Germany, the bank's toughest local competitors are not the major banks. Handelsbanken's biggest problems are posed by small local banks which are close to their customers. Moreover, in the 1960s, as we have stated, Handelsbanken used to be this type of bank, and completely adhered to the "big is beautiful" doctrine. A dramatic decline in its performance in 1969 prompted the recruitment of Jan Wallander, a leader with hands-on experience of a medium-sized regional bank.

This is how Handelsbanken came to reject agency and corporate financializaton theories and pulled out of the race to generate economies of scale. To stand out from its competitors, a firm must *be* different. One of the reasons for the failure of many differentiation strategies is that they only concern the firms' products, without any reappraisal of the economic doctrines and organisational principles that guide the firms. Chris Argyris, a researcher at Harvard University, has described the phenomenon of double-loop learning.[15] This is a type of learning which, in the event of failure, not only calls into question the action carried out (single loop) but also the mental models governing the choice of a particular action. Here, we see a firm engaging in single-loop learning (differentiation by launching new products), but failing to carry out double-loop learning (modification of representations upstream) and as a result, it comes to a standstill or constantly runs into the same limitations. This was not the case for Handelsbanken. Not only did the Swedish bank challenge seemingly sacred economic doctrines in its sector, it also introduced organisational principles that revolutionised virtually all of the bank's organisational practices. In this way, and within a few short years, Handelsbanken became radically different from its competitors, not only in theory but also in practice.

A bank unlike any other

You will certainly, and justifiably, be waiting for us to describe the organisational practices that set Handelsbanken apart from the other banks. We will be doing so. However, we will start by describing practices adopted by other banks, which are *not* currently employed by Handelsbanken. When we asked Anders Bouvin, CEO of Handelsbanken, this question, his first reaction was: "Practices not currently employed by us? Where do I begin?" He then recited the following list:

- No call centres;
- No promotion of in-house products if they are not the best on the market for the customers' needs;
- No cross-selling (e.g. selling car insurance to a customer applying for a property loan);
- No sales targets;
- No sales completion schedule;
- No centralisation;
- No micro-management.

The first three points – call centres, pushing the company's own products without really taking account of the customer's needs, and cross-selling – are sales and customer-relations practices which are often condemned by consumer associations and the regulators. Bouvin calls them "practices your customer doesn't want." We have previously mentioned that instead of call centres, Handelsbanken's customers call their branch's customer account managers on their mobile phones, including outside business times, if required. In a comment that will perhaps raise a smile, another of the bank's executives observed that people not only like to have someone from their own region on the end of the line, they even like to have someone who speaks with the same accent. More than a simple anecdote, this executive considers it to be very beneficial for the bank's customer account managers to have children in the same schools as their customers' children. This could certainly be accompanied by a risk of favouritism, but this executive sees it as beneficial: having in-depth knowledge of the customers' situations enables staff to serve them better, including when responding to credit applications, for example. And if you are wondering whether this bank might be a little archaic and loath to take advantage of new technologies, you will discover that, on the contrary, it uses them abundantly, but differently. Instead of using them to bypass the branch and put customers directly in contact with a call centre, Handelsbanken uses new technologies to help the branch's advisors to provide better customer service. In other words, rather than seeking to make these advisors superfluous – and entire branches with them – Handelsbanken strives to make these advisors even more indispensable. And since new technologies enable them to serve more customers better, these technologies become a source of growth. Parallels can be drawn with the proper use of airline companies' self-service terminals at airports; they are very popular with customers because they eliminate queueing, but on one condition: that staff help them if they run into difficulties.

Customers neither ask for nor refuse digital channels, but they beg for human contact.

As far as sales targets and sales completion schedules are concerned, Bouvin explains that these practices encourage staff to take short cuts in order to obtain short-term results at the expense of long-term customer satisfaction. "You can never spend too much time doing what is necessary for the customer", explains Bouvin.

However, Bouvin saves his longest comments for the last two practices: centralisation and micro-management, or rather on their avoidance. "Micro-management", he explains, consists in telling your customer account managers how to act. It limits their freedom to meet their customers' needs. Our competitors impose rigid rules, processes and directives because they do not trust their staff." In other words, it is because Handelsbanken implicitly trusts its employees that it does not engage in centralisation or micro-management. As a consequence, the trust placed in employees does not give them the power to do what they want, as is sometimes rather naively thought, but to do *what is necessary*. In this case, it is a question of doing what is necessary *for the customers*, because, as Bouvin puts it, “If we do what is necessary for the customers, they will be grateful to us.”

Strategy, what strategy?

The “overriding concern” at Handelsbanken to do what is necessary for customers also has another impact on its practices: it means that the bank does not follow a strategy. Such a revelation could be considered surprising, given how finding the right strategy is often extolled as the key to success. We were even more surprised when Jan Wallander declared that he wanted to create a bank that would still be around in 100 years’ time. Ordinarily, such a goal would seem impossible to attain without a proper strategy. Yet the current CEO confesses, with a smile, “We don’t even know how to spell that word”, before continuing, more seriously: “We don’t like strategic plans, which are usually doomed to failure.” It must be said that academic research supports Bouvin’s assertion. For example, between 2/3 and 4/5 of strategic plans associated with mergers and acquisitions end in failure. “Rather than spending our time trying to predict where we’ll be tomorrow,” explains Bouvin, “we prefer to know exactly where we are today.”

Not having a strategy is certainly a paradox for which Antoine de Saint-Exupéry may have an explanation: “As for the future, your task is not to foresee it, but to enable it.” In other words, it is the account managers’ actions, by providing unconditional customer service day after day, that make Handelsbanken so successful and enduring. Organic growth is a very important aspect of this performance. The bank does not set growth targets and takes its time. As we have previously mentioned, it believes in the principle of taking sufficient time to find the right branch managers, i.e. people who share the bank’s philosophy. Before becoming CEO of the bank, Anders Bouvin had been Managing Director of the UK subsidiary and before that, MD of the Northern Region of the same country. His experience is a clear illustration of Handelsbanken’s non-strategic and patient approach.

As is the case for every bank, he and his team identified a town that they thought would be a propitious location for a branch. However, they did not establish an opening schedule because, in line with their principles, they first set out to find the ideal local candidate to become the branch manager. After a certain period of time, they finally identified that rare ideal candidate, but he did not want to leave his post immediately in order to join the bank. Bouvin therefore decided to wait. This wait would last three years. That is correct: three years, until one day, he learned that this person's situation had changed, and he was now ready to commit to Handelsbanken. The candidate was recruited and from that moment on, in line with its principles, Handelsbanken placed complete trust in him to decide on the location of the branch and its opening date, to choose his staff and the products to be offered.

It has to be admitted that such an approach can hardly be described as a strategy. If a bank had an expansion strategy involving the establishment of new sites in the United Kingdom, it would determine the optimum number of branches, a schedule for opening them and introduce bonuses for the attainment of these targets. These are precisely the factors that could prompt the executors of this strategy to take the infamous short cuts that Bouvin told us about – short cuts conflicting with the essential need to act in the customer's long-term interests. In this instance, Handelsbanken considers that opening a branch more quickly but with a second-choice manager would mean running the risk of opening a site at the wrong time in a sub-optimal location, employing unsuitable staff, or all three at the same time. "As I'm based at head office, there's no way I can know the right way to open a branch in this town", states Bouvin. Only the best banker in the town, whom he had identified, could know such things and for that reason, Bouvin was prepared to wait. If he had not been prepared to wait, it would have made the future impossible instead of making it possible, to paraphrase the words of Saint-Exupéry. In fact, nobody imagined that between 2008 and 2016, the bank would manage to double its number of branches — a future made possible by Handelsbanken's unique approach.

"Downward" promotion and other unlikely HR practices

The story of the branch opening recounted above illustrates one of the key roles of the manager of a bank's subsidiary: developing a network of branches. This story also highlights another key human resource practice in banks: recruiting branch managers, and once again, the very least we can say is that Handelsbanken does not operate in the same way as its competitors. Let us return to Sturesson, manager of the Stockholm branch, whom we met at the start of this chapter.

“I considered that I was given a super-promotion when I was appointed manager of this branch”, he says. Sturesson admitted this to us when we expressed our surprise at learning that he had become a branch manager after spending time as a regional manager. Playing the devil’s advocate, we even implied that he had surely taken a step or two down the ladder, to which a smiling Sturesson replied, “You’re looking at things from a very centralised perspective!” By telling us this, Sturesson was saying that our point of view is tantamount to stating that the closer an employee is to the heart of the enterprise, i.e. its head office, the happier he must be. We do not think that Sturesson was influenced by the fact that we were from a country renowned for its taste for centralisation, but he did refer to one of Handelsbanken’s key principles, which has already been mentioned: decentralisation, in other words the transfer of central powers to the branches. Sturesson added that switching from a regional manager position or a post at head office to become a branch manager was a completely normal career move. “We do it all the time”, he added. As a result, seven managers of the ten biggest branches in Stockholm are former regional managers. We took this to mean that a former regional manager does not ordinarily become the manager of a small branch, which is understandable. We then asked him whether the remuneration reflected the greater importance attached to the branch manager’s position. “Absolutely”, he told us. “Branch managers can indeed earn more than regional managers.”

Sturesson did not go so far as to suggest that his CEO will one day return to being a branch manager, but it is clear that Bouvin looks back on those times very fondly: “I guarantee that Anders Bouvin will tell you that his best period at the bank was when he was earning plenty of money while maintaining very close links with customers. I even think Anders will tell you that the world’s best job is being a branch manager at Handelsbanken.”

Of course, former regional managers are not the only people to be appointed branch managers. Internal promotion within branches is the most common method. “During my thirty years at the bank, I’ve known only one case of a branch manager being recruited externally”, explains Sturesson. Admittedly, in new countries, such as the United Kingdom with its 200 branches, as well as in the Netherlands and Germany, Handelsbanken recruits externally, but there too, the bank does so in a radically different manner. Firstly, newcomers must always originate from the geographical area in which the new branch is based and possess detailed knowledge of the local economic fabric. Secondly, their CVs count for just 5% in the recruitment decision, with their values accounting for the remaining 95%. As Anders Bouvin stresses: “It is precisely when you are obliged to recruit from outside, when you are developing a network in new companies, that the risk of ‘diluting your DNA’ is the greatest.” Later on, we will see how long conversations with candidates play an essential role in ensuring that their values correspond to those of the bank. However, once recruited, total trust is placed in these people, even if they are from outside the bank and are as yet unknown within it, and they will be given the same sovereign powers as mentioned previously. Therefore, for branch openings, these are the people who will choose the exact location of a branch, its layout, fixtures and fittings, its opening date and its staff. Moreover, branch managers do not just choose their teams in new branches; they also do so in established branches. This practice has one very important consequence: *all the bank’s staff* – from the people who still work in the branches to those based at the small regional headquarters or in the head office for their country – have been recruited by the branches. First and foremost, this reflects a highly unconventional way of operating. But it goes further still: in fact, this practice consists in *not recruiting at all*.

Handelsbanken does not even possess a HR department in charge of recruitment. Every summer, like anywhere else, many branch employees go on holiday and are replaced by stand-ins. To this end, Handelsbanken has no need to contact temporary employment agencies because the bank is inundated with unsolicited job applications from trainees. Solely for the district of Stockholm in which Sturesson’s branch and several others are located, the bank generally receives 1,500 applications from students for 150 summer jobs. The selection procedure is rigorous and is based on the same principle used for the external recruitment of branch managers: CVs count for 5% in the final decision (which is quickly made for students) and the candidate's values count for the remaining 95%. As with newly recruited branch managers, the bank places total trust in its trainees. In this way, they manage the funds and are given complete autonomy to decide on the actions required to satisfy the customers. If trainees prove their worth over the summer, the bank will ask them to join it on a permanent basis. Sturesson sums this up with humour. "We don't do 'up or out' [with reference to a common practice among major consulting firms]. We do 'in and keep'". In other words, this means choosing the right people and then retaining them. Bouvin mentioned previously that he was worried about diluting the bank's DNA by rushing into new branch openings, but a similar concern also applies to recruitments. Widespread in-house recruitment significantly reduces the risk of employees being unable to cope with the trust – and the responsibility – that the bank gives to them.

Handelsbanken is known for having the lowest staff turnover in the industry, with many employees spending their entire careers with the firm. Yet there is a constant influx of new blood, which is very important to any enterprise, thanks to organic growth and the recruitment of all these summer staff. As a consequence, there is no exaggeration in stating that *all employees* of the bank – from customer account managers to Sturesson and the CEO – have been recruited via the branches, without them even being aware of it. This is another of Handelsbanken's paradoxes.

With regard to the CEO, we asked Anders Bouvin to tell us by which criteria he thought he had been promoted to this position. "The CEO needs to be someone who completely embraces the bank's values. That is why only people who have been with the bank for a very long time are promoted to executive positions. I meet these criteria but many of my colleagues also totally embrace its values. I'm unaware of the other reasons why the board of directors chose me." It must be acknowledged that it is uncommon for a CEO to be unaware of the qualities that led to his appointment...

Focus on the core business

So far, we have discussed Handelsbanken's highly original practices in a field that we can categorise as human resources. However, this bank also stands out from its competitors in its core business activities. Let us take the example of granting loans. We have already described how the size of the loan is totally irrelevant: if the retail customer or corporate client resides in the geographical area covered by the branch, then it is the branch that decides whether or not to grant the loan. The same applies to its investment policy. In contrast to its competitors, Handelsbanken never invested in the Swedish property bubble in the early 1990s. When this bubble burst, it caused the biggest banking crisis in Sweden's entire history and required the State to bail out all the major banks, apart from Handelsbanken. Nor did it participate in the widespread rush to invest in subprimes. Once again, it was the only Swedish bank that did not need to be bailed out by the State. Quite the contrary - it was Handelsbanken that bailed out Sweden.

The same story applies to its external growth policy. The bank did not join its counterparts in flocking to enter the Polish and Ukrainian markets. Instead, it opted for countries whose cultures were more familiar and closer to the Swedish culture, which would make it easier for the bank to recruit employees who would be likely to adhere to its values and principles. It found sufficient numbers of these people in the Nordic countries, in the United Kingdom, the Netherlands and currently in Germany. It should be noted that this decision to opt for greater cultural proximity also has its drawbacks, as it is harder to break into mature markets. Yet, despite the fact that none of these countries is a banking desert, Handelsbanken has preferred to take on fierce competition with employees who possess values it can be sure of, rather than seeking its fortune on emerging markets, which are undeniably growing, but where it can be less sure of finding future employees with compatible values.

At this point in our story, you will not be surprised to learn that unlike its counterparts, Handelsbanken does not spend a single Swedish krona on advertising or marketing. The bank's customers promote it. The same applies to communications: for a long time, the bank sought to avoid the media. It has since changed its approach somewhat, while still doing things – as is its custom – differently. This story is worth examining in detail.

To speak or not to speak, that is the question

In 1999, Handelsbanken decided to start operating in the United Kingdom. This was not the first time the bank had decided to open branches outside Sweden. It had already established a strong presence in the Nordic countries. Remaining true to its policy of acting locally and believing in the existence of certain similarities between Scandinavian and British values, Handelsbanken sent its representative to visit the country. At that time, despite the rather grand-sounding name of the Bank's UK director, he was the antithesis of the Shakespearian Danish prince invading the British Isles. After arriving unceremoniously in the humble premises placed at his disposal, he proceeded to look for, and eventually find, an English candidate to become the first UK branch manager, whom he allowed, in line with the Handelsbanken tradition, to make all the decisions, i.e. where, when and how to open the country's first branch.

Sometime later, the manager opened the first branch, which was successful. He therefore looked for, and found, another branch manager for another town, who opened his own branch, followed by another, and then another... This had all the makings of a discreet Scandinavian invasion. Indeed, without attracting any real attention, Handelsbanken opened its 50th UK branch in 2007 and its 100th branch in 2011. As usual, this event was not publicised in any way, but it is hard to go unnoticed when you have a network of 100 branches. This did come to the attention of a journalist, and not just anyone – the head of the BBC's Economics department – who asked to meet the boss.

For the first time, the UK Managing Director – who just happened to be Anders Bouvin, since 2010 – was worried: "To speak or not to speak, that is the question." If Bouvin decided to speak, the journalist might push things too far by over-emphasising his role and glorifying him as the great strategist of a hitherto secret conquest. Firstly, that would bear no relation to his actual role and secondly, it could be detrimental to his relationship with his employees. Conversely, if Bouvin did not speak, the story would come out anyway, and deny him the opportunity to express his views. The local approach held the answer to his quandary. He needed to hire a communications professional who was familiar with the UK financial sector. However, as this experience would only account for 5% of the recruitment process, he also needed someone who shared the same values. Needless to say, it would not be easy to find this ideal person at short notice, but Bouvin decided to try.

Shortly afterwards, Richard Winder, then working as a communications consultant for the banking sector, saw an advertisement that intrigued him. He sent off his CV and prepared himself for a conventional recruitment process: an initial screening by a consulting firm or HR specialists, possibly followed by a meeting with a line manager who would assess whether his competencies corresponded to the future missions, and then, if everything went well, an interview with the big boss – the national Managing Director. This was what Richard had in mind when he received a call from Handelsbanken inviting him to meet them. It was scheduled for 4 p.m. one afternoon in 2011, and six years later, Richard remembers this interview as if it were yesterday.

A senior manager met him and introduced himself: “I’m Andy Copsey, the Deputy Managing Director for Handelsbanken United Kingdom.” Up to this point, Richard saw nothing unusual about the process. Quite the contrary: he was met by the Deputy Managing Director, which somewhat reassured him about the importance of his future role, but these first impressions would soon be dispelled.

Expecting to attend a one-hour interview, Richard ended up staying for three and a half hours – an unprecedented occurrence for him. On top of that, the Deputy Managing Director asked nothing about his competencies, did not comment on any aspect of his CV and did not ask him about his ideas for devising a communications plan for Handelsbanken in the United Kingdom. Yet that is exactly what Richard had prepared himself for. His research had told him that the bank was virtually unknown in the country, that it did not promote itself and that it was naturally looking for a competent professional to devise its communications and branding plan. That was exactly Richard’s area of expertise and he was highly motivated, saying to himself: “I’ll get this job and it’ll be very easy for me.” But his interviewer was not interested in these issues. Instead, he seemed more interested in engaging in a relatively informal discussion with Richard that quickly focused on his values.

To Richard, with his extensive experience of the banking sector in the City of London, values were a "gimmick" that you discussed once a year in meetings between executives and managers and then quickly forgot about afterwards, with business always coming first. But this "going through the motions" bore no relation to Richard's conversation with his interviewer. The Deputy Managing Director of the subsidiary spoke to him about values and the importance of human relations, which always drive human beings to seek interactions with other human beings and to have positive long-term experiences that will give them the desire to work with you more often and recommend you to others. The more he said, the more Richard was able to identify the source of the frustration he had been feeling for some time with regard to the British banking sector, whose approach was poles apart from this conception. His interviewer, who had extensive experience of this sector, shared this diagnosis, but without any bitterness. The conversation could have lasted longer, but at 7.30 p.m., it was time for them to take leave of one another.

On his way out, Richard remembers telling himself that if he were recruited, he would feel very at ease in this new environment: "I wouldn't be obliged to put on a mask to hide my true values." And would not have to wait until 6 p.m., as was the tradition in the City, to enter a pub, take off his tie and say: 'That wasn't the real me at work. This is me!'" However, he had a feeling that the recruitment process was not as straightforward as he had imagined, because nothing at Handelsbanken seemed to happen as it did elsewhere. Indeed, Andy Copsey had said to him before they took leave of one another:

- "We seem to have lots of things in common. Why don't you visit one of our branches?"
- "With pleasure," replied Richard, barely managing to conceal his surprise because he had always thought that the next stage would be to meet the Managing Director. "I suppose that someone will send me the address and help me make an appointment there?"
- "In fact, I suggest that you find the most convenient branch for you to visit," proposed the Deputy Managing Director. "Contact the branch,

tell them why you'd like to visit them, do so and then let me know afterwards".

Needless to say, Richard was somewhat bewildered by such a recruitment process, but it had not yet finished. A few days later, Andy Copsey sent him two books: one written by Jan Wallander in 2002,[16] and another,[17] written more recently by a consultant who had studied Handelsbanken. "I hadn't read a book on business since leaving university," confessed Richard, "but I delved into them to make sure I'd be up to speed for my visit to the branch".

This time, Richard was less surprised when the branch manager failed to ask him about his competencies or his ideas on communications in banking. Once again, the two people had an informal conversation. In particular, the branch manager told Richard how, after spending twenty years working in the banking sector, Handelsbanken, whose name he had never heard, had asked him to open a branch for them in his town. "At that time, my own name was much better known in our town than Handelsbanken's", recalled the branch manager with a smile. He then explained how he had found the premises, recruited staff, decided when to open the branch and developed the business.

Richard learned two lessons at this interview. The first related to his own field of expertise: "It's not the bank that has forged its branches' reputation, it's the other way around." The second concerned Handelsbanken's culture: "In this bank, you don't tell people what to do. You choose people with the same values and you trust them to find the best actions to implement in order to achieve this vision." As we will soon see, it would take Richard some time to take on board this second lesson.

In the meantime, he called Andy Copsey to inform him of his visit to the branch. We asked Richard if the Deputy MD had then offered him the job. "Absolutely not", replied Richard with a smile. "He invited me to meet the Managing Director for the United Kingdom, Anders Bouvin, with whom I had another informal conversation". Richard was forming the impression that this bank's recruitment process consisted of a series of quasi-philosophical conversations. He was not entirely mistaken. He subsequently learned the recruitment rule: the 5% competencies and 95% values "law". The purpose of the informal conversations was to understand Richard's values, ascertain whether they were consistent with Handelsbanken's own values, and thereby determine whether the bank could trust him implicitly.

Richard spent an hour in discussion with the MD, who then asked him how he thought the bank should respond to the requests from the press to comment on the opening of its 100th branch. Richard finally had an opportunity to demonstrate his expertise and prove that he was the best candidate for the head of communications post. Yet he held back. "The easiest solution would be to publish a press release written by head office, but I advise against it", said Richard. This intrigued the MD. It is highly unusual for a candidate for a head of communications post to advise against a centralised communications strategy.

"My advice", continued Richard, "would be to communicate at the local level. Give all your branches the opportunity to do so and those that want to will promote the subject locally. They could explain how they established themselves in their locations and mention the long-term relationships they have developed with local customers. At the same time, they could stress that they form part of a retail banking network with a hundred branches. The communications process should be decentralised", he concluded.

A few days later, he was offered the job.

You might be saying that this was because he was a shrewd, or even crafty, candidate, who had told his interviewer what he wanted to hear. Nevertheless, Richard's last response contains a paradox that needs to be explained. Indeed, it is not every day that a future head of communications proposes a communications strategy that will significantly reduce the scope of his future role by not requiring him to be in charge of an entire communications department. Admittedly, there are solid grounds for believing that he would not have been offered the job had he proposed a grand centralised communications master plan, with a commensurate budget and team. Yet by proposing to decentralise the communications strategy, he would be taking up a post that, as a consequence, would be relatively devoid of its usual substance. This paradox is resolved by the fact that Richard was genuinely won over by this bank's philosophy, which he discovered during the course of his three recruitment conversations and after reading the two books. In other words, he was won over by being given the opportunity to enable his “professional me” and his “personal me” to coexist, in the words of another banker, Mehdi Berrada. But as we implied above, Richard had held onto some of his old reflexes.

“On the morning of my first day,” he tells us, “I was waiting for a line manager to come and tell me, ‘We need to set your targets and start implementing your plan. We’ll measure your performance in a given way and we’ll be guiding your work.’ But the person who welcomed me delivered a completely different message: ‘You’re one of us now. We’re confident in the knowledge that you share the same values with us, while possessing specific expertise. You’re in charge of this field. You’re responsible for setting reasonable goals for yourself and developing your approach to both the major challenges and everyday problems. And then, you must act. Of course, any decisions with strategic impacts or those associated with major economic risks will be made at the strategic level.’” Anyone familiar with Isaac’s book *Liberté & Cie*[18] may well draw parallels between these Handelsbanken practices and those of the American firm W.L. Gore. At Gore too, many new recruits, although selected on the basis of their values, would ask the question, “What should I do now?”, to which they were told, “That’s for you to find out!”. At Gore too, every employee has to decide individually on the best course of action to take in order achieve the firm’s vision. However, if their actions are liable to “sink the ship” should they fail to work out as planned – if they could “make a hole below the waterline” – then these employees are required to consult any colleagues who might be able to shed light on the issue. The situation is slightly different at Handelsbanken, but the key underlying principle is also based on subsidiarity: “The person with the knowledge acts”, and on the responsibility that goes with it.

Does it work?

Serving the customer unconditionally seems to have everything going for it, but you might be wondering whether this unconventional approach actually produces results? Lars-Kenneth Dahlqvist told us this story from his days working in a branch. A customer came in to see him one day and told him:

- “These are the prices the other banks are offering me. You’re too expensive.”
- “Sorry. If the most important thing for you is the price, I’m afraid I can’t help you”, replied Dahlqvist, thinking that he might not see this customer again. However, on the next day, the same customer returned with his family.
- “We’ve talked it over. We want to be your customers. The price is important, but it’s not everything. We want to be treated as individuals in our own right.”

Dahlqvist drew the following general – and one could say strategic – conclusion from this account: “We’re not trying to obtain the largest number of customers; we want to attract certain customers who appreciate the Handelsbanken model. We’re not trying to rival our competitors on the basis of the lowest prices, or by taking unjustified risks. We want to compete on the basis of service.” And providing unconditional service, even if it costs more than the competition’s offerings, wins over customers. It could also be pointed out that certain customers are more sensitive to prices than service. This is true. The key issue to find out whether, in the end, there are sufficient customers who respond to unconditional service by showing unconditional loyalty, to guarantee this bank’s performance and sustainability. Let us start with the United Kingdom.

In 2018, Handelsbanken did not have 100 branches, as in 2011, but over 200 dotted around the country, and all this despite the imposition of a stringent constraint, as we have seen: new branches are only opened if branch managers who share the bank’s values can be found to run them. Handelsbanken’s growth remains moderate compared to the six biggest retail banks in the country. Nevertheless, it has been noticed by British people. For example, it has been ranked as the best private bank in the UK for the past four years.[19] This is an exceptional result in itself, but it can be considered even more remarkable in light of the fact that Handelsbanken is *not* a private bank, but actually a retail bank. As it happens, the quality of the relationships it establishes with its customers leads many of them to entrust Handelsbanken not only with the management of their routine business, but also with the management of their assets. Regarding the management of routine personal or corporate business, Handelsbanken received the top satisfaction rating in the country among private customers and corporate clients for eight consecutive years, and for three years in a row it was voted the favourite bank of SMEs.

To round it all off, in 2016, *Management Today* named Handelsbanken as the bank most admired by the British. This is somewhat like a Belgian bank being named the most admired bank by the French. Some might even say it is like a Belgian wine being voted France’s favourite wine. In 2017, Handelsbanken was ranked fourth in this list. On the face of it, this seems like a poor performance. However, it should be remembered that Handelsbanken has managed to make itself one of the four most admired banks in Britain while still only holding a 1% market share (although this is growing every year).

But let us return to Sweden, Handelsbanken’s country of origin, where 500 of its branches and most of its business are based. Handelsbanken was ranked as the best customer service provider in the nation’s banking sector for seven years in a row. It has been the best investment bank for seven years in succession, and the best bank for SMEs for six years in a row.[20] It has also been named the best private bank in the country.[21] Lastly, it has been the bank with the best reputation among Swedish people for the past seven years and is the only bank to be ranked among Sweden’s 10 most reputable companies, all sectors combined.[22] Perhaps this reputation can partly be explained by the fact that during the subprime crisis, the bank did not need to be refloated by the State, i.e. by the taxpayer. On the contrary, as we will see, it was actually Handelsbanken that helped save Sweden, on several occasions. Moreover, Handelsbanken has never asked to be refloated by its private shareholders, despite this being a common practice when the economic situation deteriorates.

Lastly, moving away from Sweden, Handelsbanken’s international position is also quite enviable. For example, *Global Finance* magazine has ranked Handelsbanken as the world’s third-safest bank, and for many years, the world’s three main rating agencies - Moody's, Standard & Poor's and Fitch – have given

Handelsbanken the highest credit rating of any retail bank in the world. This still applies at the time of writing.

You might be wondering whether these impressive rankings are reflected in the bank's economic results. Indeed, while common sense might lead us to believe that the quality of service, reputation and even the admiration aroused by an enterprise will sooner or later be reflected in its economic performance, it is perfectly reasonable to expect proof of this. Handelsbanken does not have to look far to provide it.

For the United Kingdom alone, the organic growth of its subsidiary propelled it from 0% of the bank's total revenue in 2000 to 13% in 2017. In 2018, for the bank as a whole, its annual report indicates that for the 47th consecutive year, Handelsbanken outperformed its competitors in terms of profitability. In 1971, its profitability was around average, after being below average prior to Wallander's arrival, but in 1972, it started to perform more profitably than average and has continued to do so for 47 years in a row.

To top it all off, a study carried out by Björn Wilke and several researchers, based on data collected by London Business School, compared the share value of tens of thousands of listed companies since 1900. Handelsbanken's share value was multiplied by 1.9 million: more than any other enterprise in the world over this period.[23] This corresponds to an average of 10% per year for more than a century, not including dividends. When we asked Richard Winder to comment on these outstanding results, he returned to the bank's true aims, telling us that "[These results], are simply the consequence of our culture and our value-based organisational system focusing on the customer".

Transforming your organisational system in order to focus on the customer

This comment by the Handelsbanken executive raises several important points. Firstly, it asserts the principle of obliquity: outstanding economic results are a *consequence* but not the desired goal per se. This is reminiscent of another statement by John Nordstrom, CEO of the eponymous chain of department stores renowned not only for their legendary service but also for their splendid economic results on a par with Handelsbanken's: "We are 100% committed to customer service. We are not committed to financial markets, we are not committed to property markets, we are not committed to generating a certain amount of profit. We are only committed to serving the customer. If we make profits, it's wonderful. But customer service comes first."[24] This first point could also be made from the opposite perspective: directly targeting economic results will sooner or later cause the firm to compromise on its customer service. In other words, rather than being unconditional, this service will be conditioned by budgetary constraints, pressures exerted by financial indicators, etc. This is when we start hearing that a customer service assistant is unable to spend more than ten minutes per customer on the telephone, or that it costs too much to send a delayed product by express delivery.

The second point commented upon by Richard Winder has even deeper implications. Indeed, many firms claim to have adopted a customer-focused strategy based on the famous principle of "customer-centricity". However, very few of them manage to implement it successfully. The reason is well known and is encapsulated in Peter Drucker's adage, which we have previously mentioned: "Culture eats strategy for breakfast". In other words, if the firm has not established a culture based on values and specific behavioural standards that are shared by most people, then the employees will not act in accordance with the strategy, but rather in order to further their own individual interests.

We think that Drucker's statement has caused many firms to rush into trying to "align" their culture with their strategy, without first reappraising the latter. Unfortunately, it is very difficult to develop human standards and values that can be aligned with "12% EBITDA"-type strategies. It takes two to tango, or as Jeff Westphal, CEO of the leading financial services firm Vertex less romantically puts it: "When can you dance with a 160-kilo gorilla? Whenever he wants to."[25] To prevent culture from clashing with strategy, you need to start by radically reviewing the latter's role, as we have already discussed: by formulating the firm's vision or dream – the reason for its existence or its purpose, as proposed recently in France in the form of a specific corporate legal status. For altruistic enterprises, this is always about a vision revolving around the unconditional creation of social value for the customer, for the supplier or for the local society. Returning to the customers, it requires a radical change in how the enterprise views them.

We have already mentioned this statement by the CEO Anders Bouvin: “The employee is not a risk to be controlled”. He added that “here, we work *with* human nature rather than *against* it.” Neither Bouvin, nor Wallander before him, has spoken about their customers in the same terms. However, considering the trust that employees place in the bank’s customers, it can be concluded that Handelsbanken does not view them as a risk. Instead, they represent a *social capital*. Researchers propose several definitions of this term, but essentially, it relates to the level of trust that the different parties in a relationship place in one another. This mutual trust is a cornerstone of the market economy and has played a fundamental role in the development of Western societies, as Francis Fukuyama[26] and Alain Peyrefitte[27] have so ably illustrated in their respective books. In concrete terms, when a firm’s employees generate a high level of social capital from their different relationships with the people they deal with – in this case, their customers – the firm will derive numerous “oblique” benefits from it. Firstly, it reduces costs. Transactions “cost” much less, because they do not have to be accompanied by a range of precautions and controls that would be required for customers posing a “risk”. Secondly, the firm benefits from sustained organic growth. What ordinarily constitutes an economic transaction with the customer now becomes a reciprocal relationship: a bond. In this way, Handelsbanken’s employees do everything in their power for their customers who, in return, remain loyal to the bank, explain their future needs and promote the bank to their acquaintances. We should bear in mind that its loan loss rate is just 0.04%. One bank that comes close to this figure, and for which one of the authors has worked, is Grameen Bank, whose loan loss rate is 1%. This may seem strange, given the enormous differences between Handelsbanken’s customers and poor women in Bangladesh. However, they do have something in common: neither of these banks considers the customer as a risk to be controlled. In any case, Grameen Bank has no means of doing so. The poor villagers have no collateral to put up as security for their loans and Grameen Bank has no choice but to trust them. Handelsbanken has also decided that it does not have the means, or the desire, to control its customers. That is why the local relationship is so important to this bank: for the creation of genuine bonds and real trust between its employees and its customers. This all starts with trusting the employees, who will then trust the customers, who, in turn, will repay the bank – both literally and metaphorically – for having placed its complete trust in them. They will purchase more products on a more frequent basis and will tell everyone they know about the bank.

This all sounds wonderful, but you might be wondering how to set about giving employees the desire to create this bond of trust that generates a high level of social capital, rather than a transaction with customers who are perceived first and foremost as a risk. As the Americans say, this is the million-dollar – or here, million-krona – question. This is precisely where culture comes into play. Once again, certain firms embark on a project of “cultural change”. This is both a conceptual mistake and a sure recipe for failure. It is impossible to change the culture, i.e. to directly influence employees’ values and behavioural standards. On the other hand, it is perfectly possible to “influence” and transform the organisational system, i.e. how the firm operates, which plays a significant role in shaping the values and standards within a firm, in order to elicit new values. For example, in an organisational system that makes a variable share of the salary dependent on attaining a given target based on performance indicators, most employees will “arrange” to have “good figures”, even if this sometimes entails a degree of falsification. However, once such an organisational system has been transformed, giving the employees sufficient freedom to act in order to attain the firm’s vision, while including fair remuneration and a profit-sharing scheme, these same employees will no longer seek only to further their own personal interests, but will make every effort to attain the common vision.

In summary, transforming the organisational system leads to a change of culture, which in turn leads to the employees doing everything in their power for the customer, unconditionally. Outstanding economic results are a consequence of these transformations. This is the "recipe" for success used by enterprises such as Handelsbanken.

Wallander remained CEO of this bank for a mere nine years. He wasted no time in replacing the bank's conventional strategy with his vision of unconditional customer service. He also decided that Handelsbanken should be a workplace in which employees could fulfil their potential. At this point, he realised that the bank's existing organisational system could neither enable the fulfilment of employees' potential nor provide the best customer service. So, he decided to transform it. To this end, as we have seen, he did not use a model. With his associates, he jointly created an organisational system – the *Handelsbanken Way* – revolving around several values and principles, which they decided to share and which inspired them to serve their customers unconditionally. This organisational system is still in place and has served Handelsbanken well for more than 50 years.

The announcement of Anders Bouvin's successor bears witness to the bank's attachment to these principles and its philosophy. Carina Åkerström, who was appointed CEO on 27 March 2019, comments: "Our decentralised way of working gives us great strength, and this strength is largely based on the capacity for intuition and the detailed local knowledge that our branches possess."[28] This is what we observed when visiting a rural branch in Northern Sweden this very year, where we were greeted with lots of local colour because the windows of this branch situated on a shopping street displayed such an array of local textile products that we initially thought it was an interior design store. After entering the branch, we found ourselves in a large open-plan room with several offices. Several employees were talking to their customers via headsets which they removed at the end of their conversations, because a branch is also a "call centre" but only at the local level for its own customers whom the employees know personally. On that day, Pernilla Jansson greeted us. We asked her why Handelsbanken had a branch in such a remote village. "But why not? Just imagine what it was like a hundred years ago." "A hundred years?" "Yes, Handelsbanken opened this branch in 1919, and back then, there really wasn't much of anything at all here," explained this employee. And although Jan Wallander, during his time at the helm, had refused to celebrate the bank's centenary, Jansson' branch did not hesitate to celebrate its own. Wallander would not have had the slightest objection: he always wanted the branch to decide everything, including what it celebrated.

Yes, Handelsbanken's "recipe" really works, which does not mean that it is eternal, although nearly half a century at the very top is what many firms can only dream of. Nor does it mean that it can be reproduced. However, as Taiichi Ōno states at the start of this chapter, this bank's philosophy contains lessons that are relevant to any enterprise or organisation which is prepared to embark on an arduous quest to find its own solutions.

Handelsbanken's lessons

André Added, a former business leader who is currently at the helm of several NGOs,[29] is fond of saying: "You are never better served than by others. I succeeded with all my companies on this basis".[30] Being served and serving others seems contradictory, but André Added clarifies his paradoxical statement by adding: "However, when you consent to being served, you must give your complete trust and readily accept mistakes." There are two points to be mentioned here. The first is that a lifetime spent running firms and humanitarian organisations has proven to André Added that many people *like* to serve. If this were not the case, very few people would get involved in humanitarian work. They have this same propensity when they join an enterprise, at the outset, at least. But something happens after a certain period of time: the majority of employees start rationing their efforts to serve. This may concern the help given to colleagues or the service provided to customers. They switch on the answering machine at 5.15 p.m. despite its message, "the customer service department is open from 9 a.m. to 5.30 p.m.", and head off early to be the first to clock out at 5.30 p.m. In the corporate world, what curbs people's natural propensity to serve is revealed in the second point of André Added's declaration: the total trust of the firm and its leader in its employees. In other words, the employees know that if they make a mistake in their efforts to serve, they will never be criticised.

At first sight, this seems easy to implement: all the CEO has to do is recognise the existence of the "right to make mistakes" in the firm. John Nordstrom and Chris Mittelstaedt, mentioned previously, have also done this. However, both these CEOs – like Wallander and all the other CEOs of altruistic enterprises committed to unconditional service – also transformed their firms' organisational systems to make sure that their declarations did not go unheeded. Without this transformation, it would not be long before an employee was accused of taking €100 out of the till to reimburse a customer without seeking permission from a line manager who was absent at that specific moment, and therefore before the revocation of this noble "right to make mistakes". This transformation is both very simple and highly complex: it means replacing all aspects of the organisational environment that currently prevent employees from serving the customer unconditionally with aspects that will facilitate this unconditional service. It is this complexity of the organisational transformation that makes the application of a "recipe" like Handelsbanken's so difficult to apply, because, while it is simple to formulate conceptually that a "specific organisational system leads to the emergence of a specific culture that inspires people to serve others unconditionally, which consequentially produces outstanding results", the first stage of a significant transformation of the organisational system is far from simple. There is no "recipe" or method for transforming an existing organisational system into a new one. The approach must be collaboratively devised with the employees, because ready-made recipes stifle creativity.

It could be countered that there is no need to embark on this collaborative creation of a new organisational system in order to ensure that employees serve their customers well. It simply requires good processes, good protocols, and good scripts, followed by training employees in how to follow them properly. Many service enterprises proceed in this manner and some of them provide a high standard of service in this way. However, although these employees correctly execute the service processes, these processes do not give them the *desire* to serve, above all, unconditionally. Serving unconditionally happens to be a *voluntary* act. Customers are somewhat like children. They can very quickly detect whether the person serving them is really listening to them, if he or she genuinely wants to do everything possible for them, or if the person listening is only doing so in a perfunctory manner and providing conditional service. In other words, customers soon detect whether an employee really wants to serve them, or if he or she is doing so out of obligation, albeit satisfactorily. And if these customers conclude that a given enterprise does not want to serve them, “is not doing everything”, or “does not like them”, and if they have the choice, then they will turn away from it.

You might now be saying that you understand the need to create an organisational environment that gives people this altruistic desire to serve others unconditionally, while wondering how to transform an enterprise in order to achieve this. With this in mind, many firms establish a working environment designed to promote their employees’ well-being. They declare that their actions are based on the principle that “happy employees make for happy customers”. There is nothing wrong with any of this. On the contrary, poor physical conditions are a sign that an enterprise lacks respect for its employees. However, being seated on a comfortable chair, or even having access to recreational or relaxation areas does not necessarily give someone the desire to serve customers unconditionally. The key to arousing and sustaining this altruistic desire, which is a psychological phenomenon, is not so much the employees’ physical environment as their *relational* environment: the nature of the relationships they maintain with other people at work. In other words, if their relationships at work are based on subordination and control rather than on freedom of action and trust, employees will not have a spontaneous desire to serve customers – they will simply be obliged to do so, irrespective of the innovations introduced in the workplace or their physical working conditions. Transforming the organisational system is the only way to change the nature of relationships at work and generate this altruistic desire to serve the customer unconditionally.

None of the enterprises that have carried out these transformations has discovered a magic wand or recipe for doing so. None of them has avoided making the mistakes that have obliged them to start particular stages of their transformation from scratch.

Finally, each enterprise has jointly devised, with its employees, an organisational system that is specific to its unique context, a system that is constantly changing because the context is also changing. Nevertheless, certain characteristics of the transformation shared by all these enterprises can be summarised: 1) A common conception of the creation of social value and a clear renunciation of subordinating it to the creation of economic value; 2) Organisational practices that give concrete expression to the principles, values and behavioural standards shared by the majority of employees. In other words, from a simple group of people at work who have been randomly brought together by the recruitment process in order to carry out their allocated tasks, the enterprise will be transformed into a *community*. It will become a community because its employees share a *common destiny* – whether this is referred to as a vision or dream, a mission or a purpose – and a *common good:* certain principles and values that define how they wish to live and operate at work. In the words of the corporate philosopher Jean-Christian Fauvet, “to take full advantage of the corporate community’s aspirations, the common good must echo private satisfactions.”[31] Only then, as was also seen at Eisai and Fruit Guys, to mention just two examples, will employees commit to transforming the firm’s economic activities in a manner that will enable them to serve the customer unconditionally.

Even when these enterprises have managed to create an organisational system that inspires people to serve others unconditionally, they never take it for granted. Such a system is never mechanical but organic. A leader may tolerate the firm’s customers pocketing, i.e. stealing, accessories placed at their disposal on three occasions, before, on the fourth occasion, losing patience and telling employees to keep an eye on the customers, unlike Daniel Abittan at Chateauform’. However, service and surveillance are about as complementary as trust and control, contrary to what is heard all too often. Take the example of a hotel. In very practical terms, this means not displaying notices stating that dressing gowns are available for purchase at the reception desk, not asking guests for their room numbers as they enter the breakfast area and not asking them whether they have consumed anything from the mini-bar when they are checking out. It may also mean not asking them for their credit card number when booking a room. All well and good, but this prompts the question: “What do you do with the people who abuse this trust?”. It is for this reason – to combat these abusers – that enterprises implement such control measures. Gordon Forward, the former CEO of Chaparral Steel referred to them as “management for the 3%”.[32] He was referring to measures designed to oversee employees, but the same management targeting the 3% (of cheats and profiteers, etc.) clearly targets and exhibits mistrust for the 97% of perfectly honest customers. You might be saying that absolute trust is easier to apply to employees, because a form of social control can be exercised in firms, as in any close-knit community. Pressure can be exerted on anyone who does not conform to the standards. However, customers are complete strangers, met for the first time when they arrive at our point of sale or where the service is provided. They are governed by no standards other than their own, and yet, Chateauform’ proves that it is possible to trust customers who are met for the first time, on the day of their arrival for a seminar or a stay. Handelsbanken does the same with its new customers.

Yes, trust prohibits control. In the same way, service prohibits surveillance, which does not mean that the enterprise has to forego the right to end its relationship with a particularly dishonest customer, as Joel Peterson, Chairman of JetBlue, ably explained. That is why Abittan goes to such lengths to ensure that his leaders are never tempted to monitor their customers, who — from the moment they arrive — are guests, or *friends* in the corporate terminology. Abittan also mentions that it is a daily struggle to keep this organisational environment running smoothly, which shows that transforming an organisational system into a system that inspires people to serve, and keeping it alive, is no easy matter. But this is the price to be paid for demonstrating love for the customer by providing altruistic and unconditional service and reaping its reward – outstanding success for the enterprise.

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[1] Arfuyen, 2004, p. 78.
[2] Personal interview, 5 May 2017. All examples concerning Handelsbanken in this chapter are derived from personal interviews carried out on this date.
[3] Robert Spector & Patrick D. McCarthy, *The Nordstrom Way: The Inside Story of America's #1 Customer Service Company*, NY: John Willey, 1995, p. 235.

[4] Jeanne Bliss, *"I Love You More Than My Dog": Five Decisions That Drive Extreme Customer Loyalty in Good Times and Bad*, NY: Penguin, p. 46.
[5] Jan Wallander, *Decentralisation - why and how to make it work*, Stockholm: SNS Förlag, 2003.
[6] Stubbart, C. I. & Knight, M. B. (2006). The case of the disappearing firms: Empirical evidence and implications. *Journal of Organizational Behavior, 27*, 79-100.
[7] Robert Townsend, *Up the Organization: How to Stop the Corporation from Stifling People and Strangling Profits*, commemorative ed. (San Francisco: Jossey-Bass, 2007), [*Au-delà du management : comment empêcher les entreprises d'étouffer les gens et de bloquer les profits*. Translated by P. Girard (Paris: Le Cherche Midi, 1991)]
[8] Personal interview, 29 April 2015.
[9] https://www.businesswire.com/news/home/20160815006258/en/Anders-Bouvin-New-President-Group-Chief-Executive (consulted on 9/9/2018).
[10] Net banking income is defined as the intermediation margin with commission fees added.
[11] Andrew Saunders, "Handelsbanken: A beacon of better banking", *Management Today*, 28 June 2017 (https://www.managementtoday.co.uk/handelsbanken-beacon-better-banking/reputation-matters/article/1437348, consulted on 13/12/2018)
[12] "Theory of the firm: Managerial behavior, agency costs and ownership structure", *Journal of Financial Economics, 3*(4), 1976, 305-360.
[13] Handelsbanken inspired the *Beyond Budgeting, Beyond Reporting* movement, which is attracting a growing number of firms, including listed companies, in France and elsewhere (bbrt.org).
[14] *Business Model Generation*, A. Osterwalder, Yves Pigneur, Alan Smith, and 470 practitioners from 45 countries, self- published, 2010, www.businessmodelgeneration.com, (consulted on 10/9/2018).
[15] See, for example, *Savoir pour agir,* Chris Argyris, Dunod, 2003
[16] *Decentralisation – Why and How to Make it Work: The Handelsbanken Way*, SNS Förlag, 2003 (English edition).
[17] Niels Kroner. *A Blueprint for Better Banking: Svenska Handelsbanken and a Proven Model for Post-Crash Banking*. Petersfield, UK: Harriman House, 2009.
[18] I. Getz and B. Carney, Fayard, 2012/Flammarion, 2016.
[19] *Financial Times/Investors Chronicle ranking*, www.icawards.co.uk/methodology (consulted on 10/9/2018).
[20] *Finansbarometerns/Eastbrook Lab* ranking, www.eastbrooklab.se/arets-affarsbank-2016 (consulted on 10/9/2018).
[21] *Privata Affärer* ranking, /www.privataaffarer.se/nyheter/de-har-sveriges-basta-private-banking-886983 (consulted on 10/9/2018).
[22] Classement *Kantar Sifo*, www.kantarsifo.se/sites/default/files/reports/documents/anseendeindex_foretag_2017_kantarsifo.pdf (consulted on 10/9/2018).
[23] Johan Nylander, "World's best stock share is Swedish", *Swedish Wire*, 7 Sept. 2009 (http://www.swedishwire.com/business/902-worlds-best-stock-share-is-swedish?format=pdf, consulted on 2/6/2018).
[24] Robert Spector & Patrick D. McCarthy, *ibid*, p. 235.
[25] Personal interview, 4 April 2019.
[26] *Trust: The Social Virtues and the Creation of Prosperity*. NY: The Free Press, 1995.
[27] *La société de confiance : Essai sur les origines et la nature du développement*. Editions Odile Jacob, 1995.
[28] http://news.cision.com/handelsbanken/r/announcement-by-the-board-of-handelsbanken-carina-akerstrom-appointed-new-president-and-group-chief-,c2743341 (consulté 20/2/2019).
[29] Eaux Sans Frontières, Enfants du Monde, Rotary.
[30] Personal interview, 16 May 2018.
[31] Jean-Christian Fauvet, *L'Élan sociodynamique*, Édition d'Organisation, 2003.
[32] I. Getz and B. Carney, Fayard, 2012/Flammarion, 2016.