



# Building A Modernized Commercial Bank

An Interview with Guo Shuqing, Chairman,  
China Construction Bank Corporation, Beijing



Guo Shuqing

**EDITORS' NOTE** From July 1988 to March 1996, Guo Shuqing served as a deputy director-general of the State Planning Commission's Economic Research Center, and director-general of the General Planning and Experiment Department of the State Commission for Economic Restructuring. From March 1996, he was promoted as the secretary-general of the State Commission for Economic Restructuring. In July 1998, he became the vice-governor of Guizhou Province. In March 2001, he concurrently became deputy governor of the People's Bank of China and president of the State Administration of Foreign Exchange. In December 2003, he was elected chairman of China Huijin Investments Limited, while still holding his positions with the People's Bank of China and the State Administration of Foreign Exchange. In March 2005, Guo became chairman of China Construction Bank Corporation.

**COMPANY BRIEF** China Construction Bank Corporation grew out of China Construction Bank, which was founded in 1954. As a state-owned specialized bank, China Construction Bank was mainly in charge of disbursing funds for the country's infrastructure construction, and managing and monitoring the use of such funds according to government plans. In 1994, China Construction Bank

transferred its financial functions and policy-directed infrastructure-loan businesses respectively to the Ministry of Finance and the State Development Bank, and ceased its role as a state administrative body implementing policy-directed businesses, and thus made an important step forward in its transition to a modern commercial bank. In September 2004, China Construction Bank Corporation was established after the restructuring of China Construction Bank. China Construction Bank Corporation provides services to its customers through its more than 14,000 branches around China, computer network systems that cover its city branches and comprehensive businesses, its six overseas branches and two representative offices, and the wide network connecting it with more than 1,000 overseas banks.

By the end of 2004, the total assets of China Construction Bank Corporation amounted to RMB3.9 trillion or about \$481.2 billion. In July 2005, it was ranked 25th among the 1,000 banks in the world for total assets, and was also awarded "Bank of the Year 2005 in China." In the same month, according to Fortune magazine, China Construction Bank Corporation ranks first in the world for return on revenue. It won 10th place in the top 500 Chinese enterprises and second among all the Chinese commercial banks.

**With the continuous deepening of the economic reform in China, the transformation of the state-owned banks is also vigorous. As the second largest state-owned bank in China, what advancements has China Construction Bank made in terms of carrying out joint-stock reforms?**

It has been more than 10 years since China Construction Bank carried out reform, and the joint-stock reform was just adopted no more than two years ago. In 2003, we achieved a reform breakthrough. First, we restructured our financial sector and shook off the non-performing assets. By the end of last year, the ratio of non-performing assets in the

bank had been reduced to 3.9 percent, and the capital adequacy ratio had surpassed 11 percent.

Second, we carried out internal organizational reform. We established some new departments while removing some old ones. We also practiced the vertical management of our auditing and risk management departments, step by step. Third, we introduced reform to our employment system, which brought about a fundamental change to the bank. In the past two years, we transferred more than 70,000 employees to other businesses, so that the number of staff in the bank has been reduced from more than 400,000 to about 300,000 at present. Besides, the government-like administrative hierarchy in the bank was totally broken and all life-long employed workers were converted to contractors, including me. Therefore, there is no iron rice bowl for anyone in the bank, even for the chairman of the board.

Fourth, we streamlined the organization of the bank, which was also an important part of our reform. We cut the number of our savings banks from nearly 30,000 to the current 14,500. However, the most fundamental change behind this move is guided by a customer-centered concept. We have adjusted our business procedures and service products, so that we can better serve our customers and be more customer and market oriented. Better services to customers means stronger competitiveness in the market, which indicates greater value creation. Greater value brings profits to our shareholders and society. All these reforms are delicately devised for the current phase, and can be recognized as breakthroughs.

China's goal concerning reform of the state-owned banks is clear: to build them as modern financial enterprises – modern commercial banks. To be more exact and concrete, the goal is to create sufficient capital, strict internal controls and management, safe operations, and sound services and economic benefits. These are all basic requirements for a modern commercial bank, and are requirements for all modern companies.

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We introduced the responsibility system when we were implementing the organizational reform, which aims at totally changing a situation in which no one is responsible for any operation mistake. A person must assume a certain responsibility. The responsibility system is not a punishing mechanism, but an inspiring one. For instance, a branch's president must be responsible for any mistake made in the business that he takes charge of, and even resign if the mistake is grave enough to reach a certain degree. Here we do not regard resignation as a punishment, but the result of a close connection between position, power, and responsibility that aims at pushing everyone to concentrate on his work.

**Internationalization of the state-owned banks seems to be a major step in the reform of Chinese banks. What does internationalization mean to China Construction Bank Corporation? And what significance do internationalization and strategic investment have to the bank's further development?**

We think the so-called internationalization means we are drawing closer and closer to world financial companies, especially the world's top commercial banks, and guiding principles of management, operation mechanisms, and service products, and our customers should be different companies and individuals from different countries. We will learn from the world commercial banks and their operation mechanisms and means of management, and will absorb their most advanced knowledge and expertise in such areas as risk control, customer services, and financial products. China Construction Bank is the first financial institution in China to use the concept of economic capital and added economic value to measure its benefits. It is also the first of its kind to research the risk-alarm system, implement the internal rating system, and improve its management according to the Basel Accord. All these are advanced things in the international financial community. More importantly, we have had two inter-

national strategic investors this year, which will surely play a positive role in pushing us forward in the internationalization drive.

We want to draw in the international strategic investors not merely for an increase of capital, but more importantly for introducing their advanced conception, management, and products, which are most precious to us. First, their experiences in handling the relationship between general meetings, board of directors, and the leadership of the company will contribute to the improvement of our corporate governance. Second, they have some distinctive practices in retail banking services and marketing and sales. For example, Bank of America meets the demand of the financial market very well. It develops many new products and provides best services especially to consumers and small enterprises, and is the largest financial-service provider in the U.S. And their advantages are exactly what we are lacking. Third, we are in great need of their assistance and experience in risk control. Fourth, we can also learn a lot from the international commercial banks in regard to electronic banking and IT, in which they have been engaged for quite a long time and are rather experienced. Besides, there are also practices worth learning in their human-resources management, incentives and compensation packages, and treasury management.

**With the ever-increasing financial cooperation between China and the rest of the world, do you think the outside world has a precise and objective understanding of China's economic development?**

Now, there are some misunderstandings about China's economic development in foreign countries. They regard China's development as aggressive and a threat to other countries. These misunderstandings stand especially in economic and financial sectors, and include ideas such as China's development takes away capital needed for other countries' development and China helps burst economic bubbles, creates excessive de-

mand for resources, and leads to a severe imbalance in the world economy. I do not think these worries are totally unjustified. Actually, it is only natural for one to care about the economic, financial, and physical security of his own country. The starting points of these misunderstandings are understandable and even we Chinese would think this way. However, the key problem is whether or not these arguments are valid. First, let us look into the issue of China absorbing foreign capital. China has been a net-capital outflow country in general, although it has attracted much FDI since the early '90s, because the foreign exchange reserves it has accumulated have all been invested in other countries, with the U.S. as the largest beneficiary. Second, we offer the entire world made-in-China goods that are of good quality and inexpensive. Without China, the world economy would not be like it is today, inflation would not be contained at today's level, and there wouldn't be so many stabilizing factors in the U.S. and European economies. Third, China provides a gigantic market for the whole world. At present, China imports about \$600 billion in goods each year. Japan, South Korea, and all Southeast Asian countries are enjoying trade surplus with China, and the U.S. and EU exports to China are also expanding dramatically. Without China, those countries producing raw materials would probably fall into economic recession. Oceania and South American countries are very happy about the great demand in China. China is providing markets and opportunities for these countries. Of course, in some areas China's economic development may also cause some negative effects to other countries, just like to itself, but generally speaking, China contributes positively, not negatively, to the world economy as a whole. China will become one of the largest economies in the world according to its economic and financial development, and it will create more wealth for the world and more opportunities to other countries, especially Asian countries and its neighboring countries. I

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believe with China's development, the world will become better.

**As the leader of China Construction Bank Corporation, what kind of culture do you wish to foster for your enterprise? And what core values will China Construction Bank pursue to blaze a distinctive branding trail in the future?**

When talking about the values of my bank, I like to use words like diligence, honesty, steadiness, and creativity. However, these are common values and what I want to stress is the special one. We fumbled quite a long time in the past as to how to carry out reform. Then we found out the key issue is transforming a bank affiliated with the state finance and specialized in funds distribution into a modern commercial bank. Our core value comes from turning our old conception and system to a new one focused on customers. Only by doing this can we establish a modern commercial bank and possess the largest value creation and strongest market competitiveness, which are of the utmost important significance to our bank's reform, development, management, and internal stability. Although we have done many things to realize the transformation of our bank, the fundamental key to measure this issue lies in whether or not our more than 300,000 employees have shifted their old working conception and behavior from focusing on ourselves, as well as the government's plans and orders, to focusing on the customers and trying best to serve the needs of the customers. That is the most fundamental change.

We also stress the spirit of teamwork and uniformity in our bank culture. We make an objective judgment of our staff and respect their work and choices. They are most concerned with whether or not they can obtain a sound development in this bank. So we require all departments to help each staff member draw out a career plan. This career plan is not done by the bank, but by the associate himself, while the bank only offers some help and suggestions. Competition is natural. However, we need to set up a conviction in all

our staff that our bank is a large platform that can provide opportunities to all staff members.

Besides, I think there are still problems in the team building of the bank. On the one hand, some employees do not possess the knowledge and ability required by a modern commercial bank. On the other hand, we sometimes misunderstand the employees and follow an unscientific management pattern with them. Too many bureaucratic levels waste our precious human resources, our employment system still has remains of the planned-economy era, and I don't think that our female employees can fully demonstrate their potential. All these need to be changed, and we have been in the process of doing so. Further reform is still needed to accomplish these goals.

Another important element in the bank culture is social responsibility. We encourage the employees to care about their society, their country, and the world at large. We have the long-established Love Fund, for helping poor college students. We also gave financial aid to children who have caught a fatal illness, and have sponsored many cultural activities. After the disastrous tsunami in Southeast Asia, all staff in the bank actively donated money and goods to the affected people, which reached a total of over RMB7 million, or about \$860,000, according to incomplete statistics. We are now preparing to set up a Mutual Help Fund to help those employees with special living difficulties. All our employees are supposed to donate money on their own volition. Notably, those employees who have been diverted out of the bank are also eligible to apply for aid from the fund in case of special difficulties, provided that they had worked for the bank for more than 10 years. All in all, these measures are necessary for enhancing our cohesiveness, where our core competitiveness lies.

**What should China Construction Bank be?**

It should be a first-class commercial bank that can provide the best services to

its customers, create the most value for its shareholders, and have a first-class staff and products. This is my vision, which is shared by all our staff. We once put forward a slogan in 1996 that China Construction Bank builds modern life. This slogan showed that we were true builders. This is one of the core pieces of our brand.

**With the deepening of the restructuring in China, leaders of Chinese enterprises, whether privately owned or state owned, are playing a more and more important and obvious role in the development of those enterprises, be it positive or negative. The credibility of the leader as a person becomes closely connected with the credibility of his enterprise. You took the position as the chairman of China Construction Bank Corporation at its grave conjuncture of reform. What responsibilities do you feel you have, and what is the biggest challenge you have to face?**

My most important responsibility is to transform China Construction Bank Corporation to a joint-stock company, which means a substantial change from a state-run specialized bank to a modern commercial bank. This is not a superficial change. And my biggest challenge is to convert the bank's old concept to a new one that focuses on customers and that is oriented on the market. In addition, I want the staff to truly apply the new concept to their behavior and working procedures. I think that is most fundamental.

**Having seen your biography, it seems that you are a fortunate person. Although a herdsman in Inner Mongolia at first, you became one of the first youths to pass the examination and become a university student after China resumed its college-entrance examination system. Then you obtained your PhD, went to Oxford University as a visiting scholar, and became a government official, holding very important positions in China's reform and opening-up process. You were a vice province gover-**



**nor at the young age of 42. Now, you are a banker. How can you be so successful? What connections exist between your success and the dramatic changes in China?**

We are really a group of lucky people compared to our ancestors, our father generation, and many of our foreign friends, because we live in China's best period in several hundred years, with a stable society, an ever-developing economy, and an improving quality of life. In the past 26 years, China's annual economic growth rate reached 9.4 percent, a speed that a country can seldom reach. However, from another perspective, things are not always moving smoothly for us. We experienced the culture revolution and the political movements that brought to us great pains. We also experienced many ups and downs and policy changes in the economic work, reform work, and macro-economic management work that we are engaged in, which also brought to us heavy costs. If I have made some accomplishments, I would like to contribute them to the times I am living in, which are full of opportunities. However, from my personal perspective, I think they may come from my unceasing pursuit of my dream.

**How did your experiences shape you as a person? And how do they build up your unique ability and characteristics as a leader, so that you can better serve the enterprise you lead?**

I really experienced many kinds of jobs. I worked nearly four years in the pastureland, at the very beginning. At that time, I was once leader of a production team, a position that was very conducive to my growing up, because I came from the very bottom of the society, found out the bitterness and happiness in people's lives, and knew their hardships. In that position, I grasped the very opportunity to observe and experience the basic unit in the economy from a terrific perspective, trying to understand feelings of those common people and a leader. Of course there is a huge difference between raising stock and running a modern bank. The former is a simple means of production, which cannot make a person a banker. However, the hard life it brought about can definitely temper a person and be very helpful to one's growing up. I was tempered to be accustomed to loneliness and to work and harvest in the vast Gobi Desert, and study besides. The culture revolution was underway at that time, so I could only depend on self-study. I read many books during that period of time, working on the pastureland. After that, I took the college entrance examination and was admitted at Nankai University, a first-class university in China. It was a dream for all of our generation to return to college. As a result, only one out of 20 people was

enrolled. My study in Nankai University proved to be vital to my future development. So you can imagine what an excitement it was to be offered such an opportunity to take the examination and be enrolled soon after the culture revolution was over.

**Why did you choose to study philosophy at that time?**

I always want to understand the nature of the world. I think philosophy can teach people the methodology of doing things. A good command of philosophy would be some help in learning other things. I taught myself economics and other courses, while attending philosophy courses, in the hope that I could address some more realistic issues like the people's food and clothing. With a broader social and academic view coming from my experiences, it was easier for me to catch the vital parts in the textbooks and not to be confused by superficial questions of wording.

In 1981, I was admitted by the Chinese Academy of Social Sciences as a post-graduate student, majoring in comparative socialist systems, which had greatly enlightened me about the flaws in the planned economy and the problems in China's reform process from a worldwide perspective. Generally speaking, the most important benefits my past experiences have brought to me are the integration of knowledge and practices, and a close linkage between theories learned and realities experienced, which are of great help to my work.

**Your macro-thinking methodology was mastered through learning philosophy. That, together with your concrete experiences gained in your management work, equips you with profound management experiences and a strong strategic sense. Do you think your experiences in being a cowboy were helpful in forming your awareness of innovation?**

I think it is really important to master the basic methodology. For example, I always stress that things are closely related to each other, and not a single matter is totally isolated, be it macro things, micro things, the national economy, or the development of an enterprise. We should always bear in mind this point and look at things as an organic whole. Why do we make mistakes of this kind or that kind? I think it is, to a large extent, because we look at issues in an isolated and partial manner, which leads to mistakes and missing direction.

As far as my work is concerned, I was engaged in macro issues in the past by designing and researching the plan for the country's economic restructuring, while in the China Construction Bank, I mainly deal with micro matters now. Although they are different, I treat them with one basic methodology. That is why I stress a coordinated implementation of

the reform in the Construction Bank and believe that only through making advancement in the whole can we achieve real effects. Another methodology is that problems are resolved in a process. A process is required for things to develop. Without the process, a problem would not be solved. So we must set up a process. Therefore, it is very important for us to conform to the trend of the current times and make the best of a situation, and not pursue a quick solution out of subjective thinking. The best teacher is real life, not any so-called theory, book, or convention. We must gather experiences from our practices and sum them up according to failures and successes. These are the most fundamental principles applicable for the past and the present.

People living on grassland usually pay special attention to the experiences of the old, but deal with things with much flexibility. Because the weather changes at any moment, so do the conditions of the stock. A horse rider has tamed many horses. Though there are common elements in these horses, each horse is unique with its own characteristics. In fact, this is true for all animals and human beings; each individual is different from everyone else. It wouldn't work without universality, and neither would it work without specialty. This is what the grassland taught me.

**How do you characterize yourself as a leader?**

I think the most important qualities for a leader are pragmatism, frankness, truth seeking, and understanding others.

**Your frequent changes in your role are a sharp contrast with your young life. It's often said that "one may not have a life-long job, but may have a life-long career." What career did you pursue in your life?**

It is both easy and hard to answer this question. I hope I can do something concrete for the people, so that they can be happier materially and spiritually.

**You are in your most energetic years, with so many experiences and titles. If all these titles were taken away and only your name Guo Shuqing were left on your business card, what information can we read from your name, as a personal brand, to know you as a person?**

A man, a Chinese, a Chinese man. I have tried to be a qualified family member, a good father, husband, and friend. In addition, I am an idealist, because I think we are still living in an ideal age, and it is the common feature of the Chinese of my generation to pursue our dream. Because of our social experiences, as well as the hardships and difficulties that our country has suffered, I am also a realist. To sum it up, I am a rather pragmatic idealist, or an idealistic realist. 