

BoardsGlobal – For high functioning boards



Why boards and management teams need to talk NOW

Even if you're not in financial services, your board and management team need to talk about how they engage together after the 2018 Royal Commission.

By Andrea Durrant, Managing Partner

There has been a large volume of reporting on recommendations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services, but less about the implications for how Executive leadership teams and boards engage.

While it focused only on the financial services sector, all good boards are seeking to apply the lessons learnt from it.

One of the 'unintended consequences' of the Royal Commission is that in many cases relationships between boards and management teams, which are so pivotal to the successful performance of both, have experienced more tension.

Both parties are feeling the effects of a higher level of scrutiny and a lower level of trust in business and institutions from external stakeholders - including regulators - and thus, while challenging to navigate, is entirely understandable given the circumstances.

The CBA review by APRA referred to boards needing to apply a 'healthy cynicism'. Many boards are now applying this to a greater degree than previously, which is altering the dynamic between them and Executive leadership teams.

What will be helpful is dialogue between the two parties about this change in approach. It's a bit like starting a game of football playing AFL rules, and at half time switching to union rules.

Why boards and management teams need to talk NOW Continued

Good boards are aware of the need to hold discussions with management about this change in 'modus operandi' to arrive at a shared understanding.

Ideally there will be an exchange of views and perspectives between boards and leadership teams as both adapt to an altered way of working and interacting with each other.

Research tells us that high performing boards consistently demonstrate high levels of trust and respect in their Executive team interaction, which facilitates openness and disclosure in the boardroom.

At the same time it is critical that all boards apply the appropriate degree of rigour and challenge to management reporting and thinking. For many in the Royal Commission's wake, this means an acceleration in the breadth and depth of their enquiries.

The test for boards is to minimise any potential deterioration in the relationships and dialogue

between the two parties while doing so.

When done thoughtfully this reduces the potential to negatively impact the quality of interaction and the degree of transparency which each enjoys with the other.

Good leadership teams are sufficiently aware of the context and understand the board's role and accountabilities such that they have an objective perspective in the face of the greater level of probing and questioning which they now experience.

These approaches will assist boards and leadership teams to move into a new, more rigorous, way of working together with minimal loss of good will and maximum benefit.

It will also be helpful for leadership teams to be aware of the likely expectations of boards for incorporating recommendations from the Royal Commission into practice. For more information see below:

10 areas for Executives to review following the Royal Commission

Our work with clients indicates that these are the Royal Commission recommendations which boards will likely emphasise:

1. Rigorous reporting on *non-financial* and *financial* performance, with *leading* and *lagging* indicators. Customer and culture performance metrics are particularly emphasised to identify where practice can or should be strengthened.
2. Insistence on appropriate timeliness and quality of all performance reporting provided to the board. Periodic independent (external) validation of management reporting by the board.
3. Greater rigour in the challenge boards provide to management - "don't tell me, show me".
4. Rigorous and independent reviews of the quality of governance, the board, and organisational culture.
5. Regular, appropriately skilled and experienced, board renewal.
6. Risk management and mitigation plans with clear accountabilities and timelines to address any gaps or issues identified in assessments.
7. Greater clarity in organisational structures and design to facilitate management and employee accountability – APRA may seek to obtain an 'accountability map' containing the names of all accountable persons, their responsibilities, and details of their reporting lines.
8. Regular monitoring and reporting on remuneration practices and the behaviours they drive; these to consider 'cultural drivers of misconduct'.
9. Timely reporting and interventions on all significant issues to ensure appropriate, responsive remediation where required. Regular reviews of interventions to determine whether changes made have been effective.
10. A stronger principled basis for decisions and actions, moving from "Let's do things right" (with a compliance focus) to "Let's do the right thing" (principles focus).



Further Food for Thought: Quotes from the 2018 Royal Commission

- “I wish the board had pushed management harder to resolve an issue more quickly”
- “The business too often failed to put customers first”
- “The board was too trusting of management”
- “We seem, as an organisation, not to be comfortable with setting expectations for people and holding them to “account”
- “Saying sorry and promising not to do it again has not prevented recurrence”
- “The nature of challenge (*from the board*) is changing over time”
- “We took too long to fix problems”
- “The board was too willing to hand out bonuses despite issues”
- “There is a tendency to rationalise why actions have not been taken”
- “Rather than just telling someone to fix a problem, the request would be made in terms of “I would encourage you to...”

If you have queries about how to apply the 2018 Royal Commission recommendations in your organisation, or how your board and Executive team interacts, we are happy to discuss these with you and how we may be able to assist. Please phone us on +613 9502 0548, or email us at info@boardsglobal.com.

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About BoardsGlobal

We are leaders in aligning boards with strategy to deliver business results, incorporating an integral focus on culture. With 20 years working with boards and C-suite teams, our experience ranges from ASX10 and NZX10 through to private, PE, statutory, NFP, and Federal and State Government.

Our services include board and C-suite performance, board search, and culture reviews and diagnostics. Our frameworks use proven methodology which is data-driven and evidence-based. We incorporate leading research across governance, behavioural and neuro-science, and draw on technology (AI) and data analytics to provide additional insight.

Our Board Performance Model is designed to address the challenges which boards face today, and considers the structures, practices and behaviours which contribute to high functioning boards, meet fiduciary, regulatory, and community expectations, and provide assurance to shareholders.

Our work helps clients to achieve tangible improvements in alignment and lift contribution, have open and constructive interactions, and build outstanding composition and culture. Ultimately performance can be measured through the value which a board or Executive team contributes to an organisation.