

2019 In Review

2019 was a tumultuous year for corporate governance in Australia. The long awaited Hayne Royal Commission Final Report into Misconduct in the Banking, Superannuation and Financial Services Industry was released on 4 February, 2019. So confronting were the revelations that the corporate sector, regulators and governments are still struggling to respond effectively. The once mighty have fallen. The Westpac money laundering scandal, revealed on 26 November 2019, claimed the scalps of Chairman, Lindsay Maxsted and CEO, Brian Hartzer just as a much smaller scandal two years ago saw the departure of the Commonwealth Bank's Ian Narev. They join some of their close colleagues as regulators hold directors to account for the conduct of their organisations.

Let's take a little time just to consider some of the significant events in governance in 2019 and their impact on directors.

The DNA of Culture - D. E. Percy Advance Notice

This book is about corporate culture from the board governance perspective - **The DNA of Culture:** What Companies Need to Know About Shaping the Culture. In this insightful work Di looks well beyond employee engagement scores and deep into the heart of corporate governance. She describes culture as the "shared experiential learning and sense making that forms and perpetuates the patterns of thought and conduct widely adopted within the organisation." This occurs in the boardroom as well as throughout the organisation. Just think about how actions and decisions at the board level telegraph throughout all levels. As Di states:

"Directors are investing in expanding their ability to read and shape culture. But how does it happen? The causes and forces of culture are powerful, able to sway normal human beings into acting in ways they would normally not consider, including going against long-held values."

The question is what to do about it. Di's e-book covers three requisite areas for directors: Part One: The Power and Potential of Culture, Part Two: Traps for Boards, Part Three: The Fresh Mind Strategy. In this book she provides directors with tools and models to help navigate the emerging field of the governance of culture.

The DNA of Culture will be released on 1 February, 2020. Learn more here: <https://dipercy.com/>



2020 looks set to be a challenging year in corporate governance. Regulatory controls will almost certainly tighten, thus increasing compliance costs. The public's trust in our corporations, governments, NGOs and the media will remain low as further instances of misconduct are uncovered. Corporate boards will come under increasing pressure to effectively balance the interests of different stakeholder groups whilst maintaining financial performance.

Geoff Nunn & Associates

Geoff Nunn & Associates was established in 1993 as an independent provider of services to the government and corporate sectors. We specialise in working with Boards and CEOs in the areas of corporate governance, board dynamics and renewal, governance structures and executive remuneration strategy.

Our Services

- Board Advisory Services
- Board Governance Advice
- Facilitated Boardroom Dialogue
- Focused Board Renewal
- Board & Committee Charters
- Executive Remuneration Strategy Advice

Geoff Nunn
Board Advisor &
Governance Specialist
0418 595 107
gtnunn@gna.net.au
www.gna.net.au

Di Percy
Board Advisor &
Cultural Specialist
0438 177 281
di@dipercy.com.au

2019 In Review (Continued)

Challenges continue to emerge for directors and board members across all industry sectors. We've listed a few below:

The Hayne Royal Commission

When Kenneth Hayne delivered his Final Report he identified major causes for the misconduct that was uncovered: In particular issues of Governance, Culture and Remuneration. The response from the banks to these findings was luke warm. Some boards and CEOs apologised for the problems that occurred on their watch. Some re-balanced the KPIs driving their executive short and long term incentive plans. Yet the structure of these plans remains largely unchanged. APRA compelled the banks to undertake a self-assessment of their governance, culture and accountability structures. The resultant reports indicated that some did not appreciate the depth of the issues they confront:

"The extent of issues raised in self-assessments, accompanied with lengthy lists of planned actions, also suggests that many institutions have yet to develop a clear understanding of what factors have caused weaknesses to manifest and persist. It is important that boards and senior leadership appreciate why frameworks are not operating as intended and challenge themselves on whether proposed actions will be holistic and effective in delivering sustainable improvements in behaviours and practices."

APRA . Bank Self Assessments of Governance, Accountability and Culture, May, 2019.

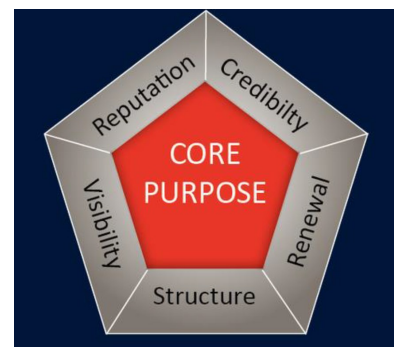
Issues of Trust and The 2019 Edelman Barometer

In January 2019 the latest Edelman Barometer was released. It placed Australia toward the middle of the pack when it came to the public's trust in our corporations, governments, NGOs and the media. Not a particularly good result although we did score ahead of Russia, Brazil and Turkey. But when we consider that Australia has one of the most developed economies and best systems of governance in the world we would have expected a significantly higher rating. The constant policy paralysis at the government level does little to inspire confidence. Revelations of corporate excesses have weakened trust in some of the once great names in finance. Retail, airlines and telecommunications do not fare much better. Directors face a major challenge to re-build trust.



The World Economic Forum 2019 Global Risk Report

The World Economic Forum 2019 Global Risk Report points to a range of major risks, many related to climate change and advancing technology. According to President Borge Brende, the challenges confronting organisations are widespread and interconnected.



© Di Percy and Geoff Nunn 2018

Key Imperatives for Boards

Articulate Core Purpose

A core purpose statement describes how the company is present and committed to the communities they are part of. It speaks to the organisation's constituent base.

Build Reputation

Reputation is a fragile asset. Issues that emerged from the Banking Industry Royal Commission highlight the very real risks to an organisation's reputation if its conduct dips below good governance standards and community expectations.

Enhance Credibility

When an organisation acts in ways that are perceived as deceitful or dishonest by its stakeholders, it very quickly loses credibility. Financial performance can plummet.

Focus on Renewal

Board renewal is not just about finding new directors. It also includes time out to work *on* the board as well as *in* the board, opportunities for self-assessment, and fresh approaches to old problems with innovative thinking and new conversations.

Be Visible

The majority of customers, employees, suppliers and other stakeholders see directors as shadow figures in the background. Being unseen means being unknown. It is easy to trust those you know and to mistrust those you don't know.

Align Board Structures

The foundations of effective board functioning (structure) are not always applied with agility and awareness. Company and industry changes may call for structural review and development resulting in innovation and adaptation.

For an in-depth perspective call Geoff or Di.

Geoff Nunn
Board Advisor &
Governance Specialist
0418 595 107
gtunn@gna.net.au
www.gna.net.au

Di Percy
Board Advisor &
Cultural Specialist
0438 177 281
di@dipercy.com.au

2019 In Review (Continued)

The World Economic Forum 2019 Global Risk Report (Continued)

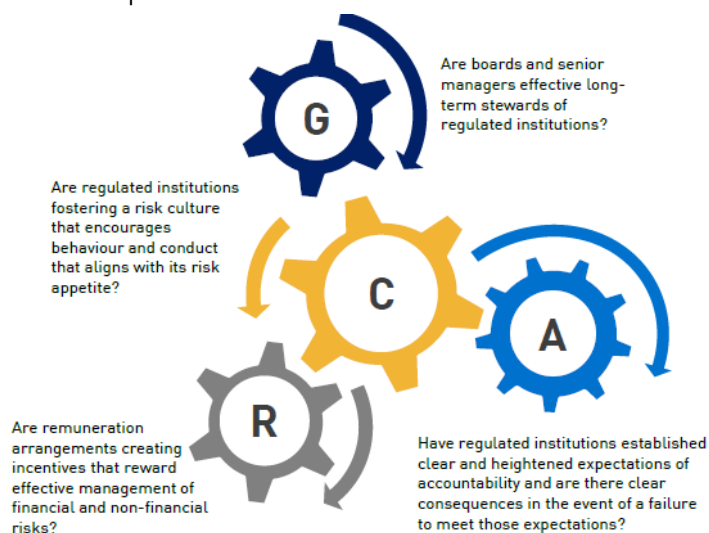
A shift in one domain can have far reaching implications in another. A bit like quantum entanglement. Of the top ten risks the number 1 is *Extreme Weather Events* followed *Failure of Climate Change Mitigation and Adaptation*. *Data Fraud and Theft* and *Cyber Security* come in at numbers 4 and 5. Boards and executive teams need to embrace these challenges as opportunity.

APRA: Transforming Governance, Culture, Remuneration and Accountability

On 19 November, 2019 APRA released a paper on the regulators response to recommendations contained in the Hayne Royal Commission Final Report. Their objectives are summarised below:

- Stronger governance frameworks and processes, providing robust oversight of organisational activities;
- Organisations that understand and enable a risk culture that supports effective risk management practices and delivers sound prudential outcomes;
- Remuneration arrangements that reflect a holistic assessment of performance and risk management, and reduce the incentive for misconduct; and
- Clear accountability (individually and collectively) for outcomes achieved.

APRA asks questions which have relevance for all boards:



Page 7.

The three imperatives of Governance, Culture and Remuneration remain challenges for boards. Tinkering around the edges clearly isn't going to pass muster in the future. Deep systemic reflection is required if corporations are to regain credibility in the eyes of a very sceptical public. Regulators are holding boards "Accountable".



2020 The Year Ahead - Challenges for Directors

Yes! It's time to polish the crystal ball and have a look at the changing face of governance in 2020.

Here are some of our predictions:

- The focus on the board's role in guiding corporate culture will intensify. Directors will struggle to come to terms with what this means in practice. Examining their own basic assumptions will prove challenging for some.
- Regulatory controls will continue to tighten. Compliance costs will increase. Directors will find it difficult to balance engagement with compliance.
- Calls for measured and ethical conduct by corporations and governments will continue. Directors will face pressure to balance the expectations of various different stakeholder groups. The role of industry super funds and other fund managers will be critical.
- Executive remuneration will remain centre stage for private sector corporations. The need to move away from the current paradigm has not yet been fully recognised by many Remuneration Committees. An enlightened few are finding a new direction.
- Board visibility will remain a challenge as directors acknowledge the need to be more present in the organisations they govern.
- Climate change and cyber security will be high on the board agenda for major corporations. Hydrogen as a fuel will become increasingly important as a climate change mitigation strategy.

Geoff Nunn
Board Advisor &
Governance Specialist
0418 595 107
gtunn@gna.net.au
www.gna.net.au

Di Percy
Board Advisor &
Cultural Specialist
0438 177 281
di@dipercy.com.au