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Hayne's final report

Leadership: Whose job is this anyway?

It was hardly a revelation to hear Hayne's declaration that primary responsibility for misconduct in the financial services industry, and the consequences that followed, lies with the entities themselves and their boards and senior management. Hayne's advice? Every entity must look to its culture and governance and how it manages regulatory, compliance and conduct risk, he says.

But it is clear that this introspection will be hard, and the changes required will not make themselves. So, whose job is this anyway? An entity, like Newton's object at rest, can scarcely effect change unless acted upon by a force.

This force must be leadership.

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Hayne does not address specifically what he expects of leaders of financial services entities. His messages are more implicit. The APRA-commissioned Prudential Inquiry into the Commonwealth Bank was perhaps more instructive. The APRA report alluded to the importance of “broader leadership repertoire of skills and traits” including reflection, humility, learning and adaptive capacity and the practical experience of managing throughout business cycles that comes with experience.

We’ve heard much about ‘tone from the top’, and even ‘tone from above’. But what else should leaders be thinking about as they contemplate this journey?

1. Be ready to be red

It can be difficult to get people to tell you what you don’t want to hear.

Invite feedback and listen to learn, not just to respond. Leaders need to open the door to people providing honest assessments of where the business stands. Setting a target of being “green” across your dashboards discourages speaking up about what’s not going so well. Encourage the amber. Do not shy away from the red. This is where insights are found.

Similarly, to dwell on customer satisfaction and net promoter scores but not mine the richness in customer complaints or declining employee engagement is a mistake. As a leader, you need an appetite to “drill into” customer complaints, to hear the things you didn’t know, and that you don’t want to know.

Foster a true “spirit of inquiry” and openness. In combatting the epidemic of the “good news culture”, it would serve leaders well to educate their teams about how to constructively raise an issue: to couple the “bad news” with a contribution on how it may be solved.

2. Call it

Do not assume that trust and a collaborative culture will guard against misconduct and poor risk management and decision making. While strong cultures will have a good measure of each, an excess is counterproductive. The APRA report referred to the “dulling of the senses” that accompanies an overly-collegiate and complacent culture where there is insufficient robust, constructive challenge.

Effective leaders, and especially the board, should be prepared to say, in Hayne’s words, “Enough is enough. Fix this, and fix it now”. Mere reliance on assurances and acceptance of repeated slippage in commitments is not strong leadership; it is misplaced trust. As recommended in the APRA report, leaders need to recognise and help close the gap between good intent and actions. And, to borrow from what our mothers taught us, leaders should remember that actions speak louder than words.

3. Tune in to the customer

Hayne says that the best interests of the corporation cannot be reduced to a binary choice. The interests of shareholders and customers (as well as employees and other stakeholders) converge over the longer term.

Boards, as well as senior management and frontline leaders, need to tune in to the voices of a range of stakeholders and, in particular, refocus on customer outcomes. The customer voice can be heard in complaints data. Metrics can be devised to track customer outcomes. Boards need to begin to insist on meaningful reporting of customer ‘stories’ that eliminates the noise, and allows alarm bells to be heard.

4. Money (and other) talks

According to Hayne, it was the implementation of remuneration arrangements, even more than the design, that was a problem. Boards, and senior management, now know that they must give proper consideration to risk-related adjustments to remuneration. This will require, as Hayne says, improving the quality of information provided in connection with remuneration decisions.

The implementation of policies will necessarily require difficult and invariably unpopular decisions. As a result, leaders must now be prepared for more difficult and meaningful conversations, if real change is to occur.

Beyond “money talks”, leaders of all levels must be adept at making it easier for people to receive unfavourable feedback, including about their behaviours, and to be held accountable. This requires preparation, practice and deliberate planning of key messages.

It is for leaders to decide, in Hayne’s words, “what is the right thing to do” and then have staff act accordingly. They must “give practical effect to their understanding of what is ethical, of what is efficient, honest and fair.” However, in these difficult, ‘coaching’ conversations leaders should take care not to judge. This is no time for sanctimony – to overcome inertia and change behaviours will require courage and, above all, empathy.