11 March 2021

Boards need to monitor executive behaviour to avoid past mistakes

- **Companies can underperform if espoused values are not followed.**
- **Values handed down by directors should be realistic and put into practise.**
- **Executives sometimes have different values to their Board, potentially leading to misbehaviour.**

Australian company directors should be doing more to ensure their executives stick to the ethical values espoused at Board level if they want to avoid a repeat of the poor behaviours exposed at the Hayne Royal Commission.

In a Dialogue paper*, published by the Actuaries Institute but representing the views of the author, Barry Rafe identifies a serious flaw in Board governance practices in large complex organisations.

"Boards need to espouse values that are realistic, can be put into practice, and be monitored by directors, but as important, Boards need to be aware of the potentially different values which drive the daily and strategic activities of their executive teams," Mr Rafe said.

Mr Rafe is a former President of the Actuaries Institute and an expert on governance. His paper, *CEOs Say One Thing and Do Another: An insight Provided by a Royal Commission*, can be accessed **here**.

"The Hayne Royal Commission, which investigated misconduct at the most senior levels in the Australian financial services sector, provided important insights into the justifications made for decisions which organisations themselves admitted breached required standards and conduct which certainly fell short of community standards and expectations," Mr Rafe said.

"A key finding of my research is that while Boards of directors appear to act ethically, routine actions of CEOs and other executives may not reflect their organisation's espoused values," he said.

"This finding is important because it appears that Board engagement in espoused values is a necessary but not sufficient condition to prevent organisational misbehaviour."

In his study, which focussed on two case studies from the Royal Commission dealing with activities at Westpac and Commonwealth Bank, Mr Rafe said there was a disconnect between the values of the organisation and the routine actions taken by the CEOs and the senior executive team.

He said misconduct and poor behaviour could not be blamed on 'weak' Boards, but on the CEO and executive team's focus on 'maximising profit within the bounds of the law'.

Among his recommendations, Mr Rafe said Boards need to:

- establish espoused values that can be operationalised by the senior executive team;
- routinely review decisions made by the senior executive team and determine if they align with espoused values; plus
- design remuneration systems that penalise senior executives for practising values that do not align with the organisation's values.

The stated values set by the Board "need to be more than just for 'branding' and 'marketing' purposes, they need to set the tone for how decisions are made", the paper states. It adds "Executives need to be rewarded for making decisions in line with espoused values."

"Senior executives need to assess their own behaviours to see if there is a gap between their values and those practised on a daily basis, with any discrepancies being raised with the Board," Mr Rafe said.

Elayne Grace, Actuaries Institute Chief Executive, noted the growing number of actuaries in non-executive roles and that this stems from the reputation of actuaries for objectivity, independence, and financial acumen.

Jefferson Gibbs, President of the Actuaries Institute, noted the number of actuaries supporting financial service companies in responding to the findings of the Royal Commission. In his recent address he said, "Risk management is an area of significant growth for actuaries and we see more and more 'risk actuaries' taking roles in aspects of governance and compliance." He noted the timeliness and relevance of Mr Rafe's paper as the profession does its part to contribute in this important area.

Barry Rafe is Principal, Rafe Consulting, and former President of The Actuaries Institute. He is a Fellow of the Actuaries Institute and a Fellow of the Australian Institute of Company Directors. Barry presents courses on board governance, finance and strategy for the Australian Institute of Company Directors and is available for interview.

A copy of the Dialogue paper *CEOs Say One Thing and Do Another: An Insight Provided by a Royal Commission* can be found **here**. This is the first in a series of papers dealing with important issues in governance, targeted particularly at non-executive directors and C-suite executives. Actuaries have a long history in supporting and working in these roles.

For media inquiries please contact:

Michelle Innis P&L Corporate Communications
m +61(0) 414 999 693
p +61(0) 2 9231 5411

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