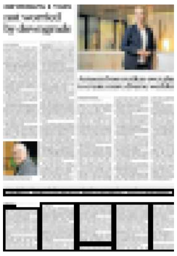

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Wealthy board directors lack empathy with customers

Sally Patten

A tendency for directors to lead privileged lives contributes to poor oversight of companies because board members lack empathy with customers, a senior academic argues.

Rosemary Sainty, scholarly teaching fellow at UTS Business School, said that while greater gender balance at board level was important, boards needed more directors from different cultural, socio-economic and disciplinary backgrounds.

She argued the predominance of directors from upper socio-economic households meant they had little understanding of customer needs.

"They don't know them. How can they act in their best interests? There is a real danger in not understanding and not acting in the interests of customers," she said.

Ms Sainty was speaking after the close of hearings in the banking royal commission, which uncovered multiple instances of charging fees for no service – including to dead people – lying to the corporate regulator, fraud, privacy breaches and governance failures.

At a roundtable of directors and regulators hosted by The Banking and Finance Oath, some attendees agreed that companies needed directors with different life experiences so if an injustice emerged, board members would have an appreciation of the potential impact on customers.

"We [directors] drive the same cars, live in the same suburbs ... in a comfortable bubble of sweet content," one of the attendees said.

A paper published by The Banking and Finance Oath after the roundtable noted that the typical corporate structure "emerged at a time in history when it was generally accepted that the elite were better equipped to make decisions for the masses".

But it noted: "The validity of this situation has diminished and there is a shift away from pervasive hierarchies even though corporate structures often seem to be accountable to no one when 'the shit hits the fan'."

Ms Sainty suggested that boards needed to look beyond experts in law, accounting and disciplines such as engineering when looking for new members on the grounds that the training involved for these professions tended to rely on logic rather than intuition.

Pauline Vamos, chairman of Freedom Insurance and an attendee at the roundtable, said that being able to sympathise with customers was important.

However, she argued it was critical that boards had a range of tools to help directors gain insights into customers' experiences. These could include surveys and recordings of complaints.

"Boards need tools to understand the customer experience and consumer impact. The whole board should be focused on this. It's the board's responsibility," Ms Vamos said.

As for diversity, she argued boards needed cognitive diversity. "You need a range of skills that allow the board to understand a broad range of reports, including how customers feel."

Director Ming Long, who also attended the roundtable, said executives and directors did not need to be poor to have empathy, but having tough personal experiences enhanced their ability to understand customers who experienced hardship. It also often made them more open to new ideas and better listeners.

"In my experience when I've spoken to leaders, I can tell whether they have humility. Often it is from [their] experience. It reminds them of their humanity," she said.

Ms Long, chairman of AMP Capital Funds Management, said it was important for boards and management teams to reflect the community through how they were constructed.

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