

FINANCIAL REVIEW

Apr 4 2016 at 8:25 PM Updated Apr 5 2016 at 5:27 PM

NAB chairman Ken Henry says boards should talk often to all staff, not just executives

by **Joanne Gray**

National Australia Bank chairman Ken Henry wants boards to take more responsibility for the ethical behaviour of their companies' employees, protect whistleblowers and their customers more and accept media criticism.

Four months after taking over as chairman, Dr Henry has become the first senior Australian business leader to argue that boards must overturn the traditional split between management and directors and regularly talk about culture to staff throughout the company.

He said boards should welcome media coverage of scandals and make sure whistleblowers are supported, a view likely to be controversial in the finance industry, which has been racked by scandal for months.

"Corporate leaders have responsibility for the culture of organisations and they all kind of know it, but they're struggling with how to do it and how to be effective," Dr Henry told *The Australian Financial Review*.



"When something goes wrong, the finger is going to be pointed at the board. My view is that given that we can't escape the responsibility, we should embrace the responsibility. I want to have more discussions with people in the organisation about NAB's culture, about the purpose of the bank...about what it is that motivates them and about their values."

MORE RESPONSIBILITY DEMANDED

Dr Henry's comments follow a decision by the Australian Prudential Regulation Authority and the Australian Securities and Investment Commission to pressure boards to take more responsibility for fixing bad corporate cultures and stop blaming isolated behaviour when misdeeds were uncovered. ASIC chairman

Greg Medcraft wants to make boards criminally responsible for bad conduct. APRA's new risk management guidelines, known as CPS 220 which took effect January 1, state that boards are responsible for assessing risk culture in their organisations. Dr Henry said it was clear from his discussions with APRA the regulator is interested in its organisational culture.

"Boards should talk to senior management. Whatever opportunities they have, they should talk to staff about the values of the organisation," Dr Henry said. When boards see examples of bad behaviour, they should use it to inform them about the culture of the organisation.

"When one of these incidents is brought to your attention, it's very important that you not react defensively," he said. "It's very important to be open to the possibility that this is telling you something that you really need to know about the culture of the organisation. You should be open to criticism, you should welcome debate both internal and external. I think you should be tolerant of internal dissent and you should absolutely protect whistleblowers."

He said banks should look into whether their remuneration structures for staff "actually encourage behaviour which is not really in the interests of the customers."

DIVERGENT VIEWS

NAB's chief executive Andrew Thorburn and top NAB executives late last year broke ranks with executives at the three other major banks, ANZ, CBA and Westpac by signing the banking and finance oath, which is a pledge by individual finance professionals to behave ethically. Dr Henry replied when asked why CBA, ANZ and Westpac executives had not yet signed the BFO, that he did not know.

When asked whether there was something inherent in the finance sector that makes it impossible to live up to the statements in the oath, Dr Henry said, "I hope not."

"We recognise we have more information than the customer has. We recognise therefore that we owe a duty of care to the customer. What ethical behaviour would suggest a banker would do is recognise the imbalance in the relationship, and adjust for it. Not say, well here's an imbalance that I can take advantage of and get rewarded financially. That is a reason to sign the oath."

The NAB chairman recently wrote the foreword to *The Origins of Ethical Failures* a book authored by former NAB foreign exchange whistleblower Dennis Gentilin, who in 2004 revealed \$360 million of hidden foreign exchange losses from unauthorised trades. Although he was named in court as the whistleblower,

Mr Gentilin was employed by NAB for a further 12 years in management roles.

Dr Henry's view contrasts with ANZ Banking Group chairman David Gonski who recently said the corporate regulator shouldn't be the culture police after ASIC launched a \$100 million case against his bank for [allegedly manipulating the Bank Bill Swap rate](#).