

# Royal Commission into the banking, superannuation and financial services industry: Implications for the health sector

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## Introduction

Commissioner Hayne's final report following the Banking Royal Commission was released to the public in February 2019. Hayne has been openly critical of the behavior of many senior banking officials throughout the inquiries proceedings so it is not surprising that the final report raises serious concerns regarding the 'failings of organizational culture, governance arrangements and remuneration systems' and indicates that these factors underlie much of the misconduct that was examined during the commission.

Whilst the finance sector and corporate Australia are vastly different from public health, there are many themes from the inquiries related to governance and culture that health directors may want to consider in relation to their own Boards.

## Culture and behavior

At the heart of the issues with the banking sector was a tolerance of misconduct in the pursuit of financial goals, often at the expense of the consumers. The culture of these financial service organisations was clearly not only supportive of these behaviors, but actively encouraged them through incentive and remuneration practices.

Most health service boards have subcommittees with responsibility for determining CEO and executive remuneration. Whilst remuneration in the health sector is largely driven by the Victorian Public Entity Executive Employment guidelines, boards should ensure that performance levers for executive staff are aligned to the culture and values of the organisation and Key Performance Indicators reflect the objectives of the strategic plan.

In health the primary goal is to provide safe, effective consumer centered care, and the challenge is to ensure that this philosophy is at the core of our organisational culture. What is the Board's role in leading and achieving this? The Board and senior management must establish themselves as the leaders in promoting this goal. It must be central to all strategic planning, decision making, communications and behaviors.

Commissioner Hayne, throughout his report, has highlighted the need for the Board of directors and senior management to apply certain practices and behaviors in enacting their oversight role of the

organisation and the cultural requirements that enable this to occur. In particular he has emphasized the following necessities that are also relevant to the health sector:

- It is the role of the board director to challenge management. The board meeting should support and encourage robust discussion and healthy debate. This provides an opportunity to assess all issues and decisions against the desired organisational culture and strategic intent.
- Ensure appropriate information flow to the Board. Hayne suggests that presenting the right issues in the right way might mean providing directors with less material and more information.
- The role of the Board is the overall superintendence of the organisation, not day-to-day operations. It is the director's duty to ensure that decisions and actions of the board are in the best interests of the organisation for now and in the long term.
- The Board must be made aware of any significant matters arising within the business and set the expectations and strategic direction in relation to such issues. This might mean taking a leadership role over a particular problem and directing management to 'fix it'.

What are the implications of these statements for health sector boards? The CEO and Executive should welcome the board asking probing questions, requesting more information or seeking a rationale for how a particular decision or course of action will further the delivery of the organisation's strategic objectives as evidence that the board members are effectively exercising their fiduciary duties. The board should respect management's role and foster a partnership that is built on a mutual objective of working in the best interests of the organisation. Lines of accountability to the board must be clear and the board's duties to govern the organisation and provide strategic direction well defined, giving the executive team a clear mandate to manage the operations of the organisation. Furthermore, the board also has a role to play in crisis management. When there is an organisational crisis the board needs to take decisive action and support management in steering the health service through the crisis with clear direction and a focus on the future.

## Governance

Both the banking Royal Commission and prudential inquiry highlighted repeated failings in governance as a key contributor to misconduct in the financial sector. Effective governance is the core responsibility of a health service board and refers to the systems and processes in place to enable the organisation to achieve its purpose, deliver on its strategy and meet its legislative and funding agreement obligations.

The Australian Institute of Company Directors has recently revised its publication '*Not-for-Profit Governance Principles*', January 2019. This document outlines the following ten principles of good governance practice essential for a Board to be effective.

**Purpose and strategy:** The organisation has a clear purpose and strategy which aligns its activities to its purpose.

**Roles and responsibilities:** There is clarity about the roles, responsibilities and relationships of the Board.

**Board composition:** The Board's composition and structure enable it to fulfill its role effectively.

**Board effectiveness:** The Board is run effectively and its performance is periodically evaluated.

**Risk management:** Board decision making is informed by an understanding of risk and how it is managed.

**Performance:** The organisation uses its resources appropriately and evaluates its performance.

**Accountability and transparency:** The Board demonstrates accountability by providing information to stakeholders about the organisation and its performance.

**Stakeholder engagement:** There is meaningful engagement with stakeholders and their interests are understood and considered by the Board.

**Conduct and compliance:** The expectations of behavior for the people involved in the organisation are clearly understood.

**Culture:** The Board models and works to instill a culture that supports the organisation's purpose and strategy.

Health services that successfully apply these principles of good governance to the functioning of their Board will go a long way to avoiding the failings observed by Commissioner Hayne in the review of the banking industry.

## Conclusion

The recent examination of the culture and behavior of the financial sector through the inquiries has resulted in some hard lessons for the industry. These lessons are equally applicable to the health sector and are summarised simply by Commissioner Hayne:

- Obey the law
- Do not mislead or deceive
- Be fair
- Provide services that are fit for purpose
- Deliver services with reasonable care and skill
- When acting for another, act in the best interests of that other

These ideals are consistent with health sector standards and should provide the foundation for organisational values and culture in the board room. Coupled with systems and processes that encompass the principles of good governance, they provide a blueprint for the effective discharge of director duties and the sound governance of the health organisation.

The VHA and ACHG will be hosting the 2019 Healthcare Governance conference on the 3<sup>rd</sup> of May in Docklands. The conference has an interesting and varied agenda covering a range of governance topics including a guest panel of health governance leaders discussing some of the key themes raised in this briefing paper. The program will be released in the coming weeks, make sure you save the date in your diary now.

**References:**

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