Corporate Governance in Commonwealth Bank

[Name of the Writer]

[Name of the Institution]

# Executive Summary

This paper tends to highlight corporate governance through corporate ethics within the banking system. Corporate governance denotes the efficient accountability, transparency and regulation in the bank, while the corporate ethics instil the mediums of conduct in morality and satisfaction in the banking system. The financial banking system of the Commonwealth Bank of Australia is a particular case in the study in this paper. The paper incorporates the malpractices and the failures of the Commonwealth Bank. Commonwealth Bank in Australia is one of the oldest banks in Australia, which has been recently accused of rhetoric practices of governance in their working. The case of Commonwealth bank has brought to light the ultimate reflections of the large investment banks and their inefficiencies that are coherent in their governance systems and executed through their unethical conduct. The paper will highlight the cores of good governance and how these financial institutions can limit, contain and avert the risks involved in their functioning. This also lays emphasis on the transparency and the accountability of the banking institutions. The issue of commonwealth bank illuminates the existential issues that have led to the banks deteriorating reputation. The failure of the bank is pertinent to its incompetency to identify the long-run outcomes of its policies and their execution. The gaps between the consumer and the banking system, the high interest rates, the ignorance to the cultures of reaction and dismissive attitudes, ineffective leadership have all led the bank to expose itself higher risks for its existence. The challenges of the Commonwealth bank have depths in the corporate governance and the culture of misconduct the bank resorts to. However, considerable evidence shows that the bank can still recover from its loss of reputation through effective policies, change in leadership and effective run on the consumer services and transparency that sustains effective and accountable foundations for the bank.

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Corporate Governance

# Introduction

 Corporate governance enhances the quality of banking. It refers to the ideals of administrating, controlling and managing any organisation. The corporate governance in the banks, however, discusses the transparency, accountability and regulation in the administration and management of banks. Effective corporate governance in the banks is central to the efficient performance of the bank. Good governance of banks is central to promoting resilience and maintain financial economic growth. The corporate ethics, therefore, is the evaluation of decision in the light of morals in the society (Deniz Anginera, 2018). The corporate ethics of a firm are usually reflected in the codes of conduct of the banks. These ethics are central to imposing a moral obligation on the planning and execution of decisions. Incorporating corporate governance and ethics in the functioning of a firm. The failures in corporate governance in banking can lead to disruption in the allocation of funds and capital through the bank into the investment sectors. The banking ethics, on the other hand, reflect upon the ideals of the operatives on which the bank is run. The ethics by large involve the morality and the consequent satisfaction of the consumers involved (Almutairi, 2017).

# Thesis statement

 The paper discusses corporate governance and ethics in the Commonwealth Bank. The weak governance of the bank leads to lower productivity and higher risk. The paper will cohesively integrate the governance gaps and introduced policies to limit the governance and ethical deficit. This analysis will comprehend both the Kantian and Utilitarian perspectives.

**Discussion**

# Commonwealth Bank

 The issues in the bank can be described by looking at the various issues as a chain of happenings. In this regard, we will first have a look at the governance issues and try to investigate what led to the failure of the Commonwealth Bank, Australia. The banks are given confidence by the general public to handle their deposits and help them in earning some extra amount over a period of time. This requires that the banks take a certain degree of risks while investing the money. The first aspect of Corporate governance is to oversee the internal processes of the bank so that proper risk governance is undertaken by the bank. This will require that the board not only performs its duties properly but also keeps a check on the internal control systems of the bank. Proper risk management is the responsibility of the board. This includes the identification of various risk factors that are being faced by the bank, then to prioritize the risks according to relative importance. The implementation of this aspect is handed over to senior management. They have to guide all the employees regarding what sort of risks are acceptable for the company. The role of the board thereafter is restricted to oversee whether the management has successfully managed the various risks or not. Various happenings including the global financial crisis have compelled the various stakeholders to keep a closer look on the board of directors to see if they are performing risk management in an appropriate way. The concerns of the stakeholders have compelled the banks to separate various types of risks and then analyze each type in a different manner. The credit, market and liquidity risks have to be separated and dealt differently from each other. The board had formed three committees to oversee the risk management operations namely board risk committee, board audit committee and the board remuneration committee. The board risk committee oversees the risk management operations and continuously review the various projects relative to the maximum risks that can be taken by the bank. The reports to the committee are made by the risk management and compliance department. The board audit committee reviews the original aspects of the risks taken by the company, the main purpose of this committee is to analyze the financial statements of the company and see how much risk has been taken by the company in actual. This refers to the internal control on the part of the bank because the bank will not take more risk than its maximum appetite if the internal controls are effective. The third committee oversees the overall framework adopted by the bank for the remunerations. This committee ensures that the structure of remuneration should be such that the objectives of the same are achieved (Jain, 2016)).

## Foreground

 The overall governance procedure to oversee the non-financial aspects of risk failed. The bank primarily focused on the financial risks and some of the serious non-financial aspects were ignored. The conduct risk was the major aspect that was ignored by the company while assessing the risks. The major drawback on the part of the board was that they allowed the CEO of the company to communicate internally and externally. The aim of the board was to let a single voice of the company go out. This created a lot of problems because this made the other stakeholders feel that the board is inactive. The board did not focus on the non-financial risks and the same approach flowed down the company. All this shifted the focus of the company to the financial risks and there were not enough measures put in place to counter the non-financial risks (Robinson, Tsiaplias, & Nguyen, 2016).

## Failures of Commonwealth banking

 It was widely held within the bank run quite well and there wasn't more to contribute for the growth of the bank. The culture of the Commonwealth Bank is observed as a dismissive culture to the legislation and regulation. The lethargic reactions to the legislative and regulative impositions have to buy large maintained a reputation of ineffectiveness in the bank's workings. the financial planning and programs initiated by the Commonwealth have been subject to invalid lending services, the misspellings of the financial bonds, certificates and other financial products. The bank has also been irresponsible in their conduct with the consumers which have led to a significant deterioration in the governance of the banks. Although the financial banks in Australia have shown resilience to the financial crisis, the Commonwealth Bank has been in triumph and a victim to both internal and external. The disillusionment of the bank that it was run well led to ignoring the shortcoming and the issues banks neede to address in order to maintain good governance through its ethics. The bank has been by large a victim to ignorant behaviour to its top management (SC Moenninghoff, 2015). The Commonwealth bank was ultimately desensitized to the issues the consumers of the bank faced due to its irresponsive attitude. The ineffective collaborative and administrative governance did not motivate the Commonwealth Bank to anticipate and adapt to their improvements in their governance and ethical behaviours. Commonwealth bank did not take the feedback and the recommendations proposed by external factors into considerations (Jones, 2018).

## Kantian Perspective

 The Kantian beliefs on the ethics of the banking systems suggest that morality in any conduct is based entirely on its intentions. This suggests that bank lending is not considered to be unethical. Immanuel Kant's notions for banking ethics suggest that the banks shall be held ethical and unethical in their conduct based entirely on their outcomes. Kantian perspective on banking hence suggests that the incorporation of humanity shall remain pertinent to the bank's operation, policies and regulation. (Scharding, 2019) (Cavico & Mujtaba, 2017)

The commonwealth bank can be viewed as an ensemble of these notions of morality, where by

being accused of money laundering, the sluggish regulative and legislative reactions and the

ultimately the ignorance of their central themes of function that is consumers. The philosophy of

Kantian ethics in the commonwealth can increase the capital investments the bank is suffering

from, it can eventually lead the bank out of the deficit credit and payments. The moral law

of Kant can is worthy of being incorporated in the banking ethics of the Commonwealth bank

hence in order to avert the deceptive and misleading notions in the banks management.,

regulation and transparency, fund transfers, the credit transaction and their will to satisfy the

consumers. The Kantian ethics hold the stakeholders as an end to themselves. Commonwealth

Bank can, therefore, use the Kantian principles of their work as a medium of self-reflection.

## Utilitarian Perspective

 The utilitarian belief beliefs in banking uphold the notions of the greatest good for the greater number of people. This reflects that the consequent reactions of this notion could be probable actions that lacked morality or ethical substance. The theory of Utilitarianism by John Stuart mill hence suggests that the consequences of actions shall result in the right and wrong sense of the actions by the bank with the collective happiness of the most. The utilitarian perspective on banking states that the bank identifies and works to promote happiness amongst consumers. If the bank holds that the greater number of happiness is achieved through their programs or financial initiative, utilitarian ethical banking considers it morally sound and hence in the favour of the notion. It states that that the banks are large entities and complexities in their functions are coherently involved. It becomes difficult to measure happiness through an ethical lens. The banks are continuously under the ambiguity of which policies and financial outcomes would bring the most happiness in most people. This does not only concern itself to the consumers of the bank only. The incorporation of social, economic and environmental factors all lead to a comprehensive take on happiness by the bank. (Wright, 2015) Lending or participating in businesses which in turn help in creating reverse happiness for them. The Commonwealth Bank has failed to serve under the utilitarian notions. The commotion stands if the Commonwealth Bank has implied these notions it will work efficiently to satisfy the consumers and responsibly sense the vacuums that create a gap in achieving happiness for the consumers by the bank. The Commonwealth bank can hence incorporate and induce the sense of the public good in their governance and ethical conduct to overcome its failures.

# Recommendations

 In order to overcome the failures the Commonwealth Bank needs to comprehend and recognize the issues at hand first. The bank's leadership is persistent to sustain improvements in their ineffective ways. The need of the hour is to change the structure in which the banking system I Australia lies on, in this particular case, the reliance on the Australian national bank is a widely recognised notion. The idea sustains that the cooperative policies shall remain at the core of the intentions of the bank. Merging the bank with a larger banking entity is another option take should be taken under consideration. A quality check in the management can also reduce the ineffective and ignorant behaviours of the governing bodies within the Commonwealth Bank. The changing structure can only be achieved through transp[aren’t policies and a change in leadership of the bank (John Haisken-DeNew, 2019).

# Conclusion

 The confidence inferred by the public in the banks is one of the prime objectives of banking which is executed in internal working and execution of their policies through their corporate governance and ethics in banking. The idea of the banking system is reflected thoroughly through the credit policies, the administration, the attitudes of the board of directors and the regulatory factors that measure the outcomes of the bank. The core of the good corporate governance is the reduction and management,ent of risk in their workings. This can be only achieved through the college and diligent policies and decisions by the top management. Commonwealth Bank in the past years is going through one of the hardest times of its operations more due to high-interest rates, low credit returns, depreciating consumer interest and satisfaction as well as non-serious attitude of the Board of directors to comprehend the long term results of their policies. The bank has been involved in money laundering, overconfidence in their ineffective working, high-interest rates, and dismissive attitude towards the legislative concerns over them. The bank has lost its way in recent years from a competitive edge to a depreciating one.

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