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SECTION 3
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CORPORATE GOVERNANCE, BOARD RESPONSIBILITIES, AND
FINANCIAL PERFORMANCE: THE NATIONAL BANK OF AUSTRALIA

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Abstract

This paper examines board responsibilities and accountability by management and Board of Directors in relation to the National Australia Bank's (NABs) performance. The NAB, an international financial service provider within the top thirty most profitable banks in the world, is compared with the Australian major banks. The evidence suggests that NABs poor performance was consistent with a lack of accountability, poor corporate governance and board dysfunction associated with fraudulent currency trading and the subsequent AUD360 million foreign currency losses. The NAB's performance is investigated by utilising accounting-based measures of profitability and cost efficiency as proxies for performance. Following the foreign currency trading losses in 2004 the NAB under-performed the other major Australian banks in terms of profits, cost to income ratio and growth in assets. In terms of profitability and cost efficiency NAB had the lowest ROE and ROA with a 19.7% fall in net profit and the highest cost to income ratio of 57.4% of any of the five largest banks. This case study provides an Australian example of poor corporate governance and suggests that financial institutions and regulators can learn from the NAB's experience. Failure to have top-down accountability can have significant impact on over-all performance, profitability and reputation. In particular, it suggests that management and Boards need to review their risk management procedures and regulators need to be more pro-active in their prudential oversight of financial institutions.

Keywords: Bank performance, Corporate governance, Board dysfunction, Regulation

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"Corporate governance is fundamentally about such questions as what business is for – and in whose interests companies should be run, and how. Wider issues such as business ethics through entire value changes, human rights, bribery and corruption, and climate change are among the great issues of our time that increasingly cross-cut the rarefied worlds of corporate boardrooms". (Elkington, 2006, p. 56)

1. Introduction

The aim of this paper is to explore the vigilance of a financial institution's board in terms of their control and risk management of resources. The case study is focused on the responsibilities of the board of directors in an Australian bank, the National Australia Bank (NAB), their internal control audit outcomes, and their performance for shareholders. The literature contains numerous articles relating to the role of corporate boards, corporate governance, agency theory and the flow from corporate failures. However, the focus of this study is on the problems associated with a lax oversight role of a firm operating in the financial industry, which is charged with the management of community funds. Shareholder impairment can still arise even if the corporation does not fail.

Woodward, Bird and Sievers (2001) considered corporate governance to be a catch all phrase which is 'used to refer to management issues, incorporations and the mechanisms by which management can be supervised and made accountable to its members, employees creditors and the community'. Corporate accountability is not a new concept and implies answerability, applicability and universality to different stakeholders who are concerned with the activities of the firm. Accountability can be voluntary although it also can be enforced by regulators where non compliance results in some form of penalty (Newell, 2002).

In recent years the focus on voluntary and to a lesser extent regulatory accountability has been directed towards corporate governance, in particular the activity of the board of directors and the internal control systems (de Andres, Azofra & Lopez, 2005). Governments are aware that breaches of corporate governance in the modern corporate environment will continue, therefore binding legislation and regulatory requirements have been passed to reduce opportunities for excess risk taking and to strengthen the integrity of corporate performance. In addition non-binding principles such as those contained in the OECD *Principles of Corporate Governance* (2004) and the Australian Stock Exchange (ASX) *Principles of Good Corporate Governance* (2003) and *Best Practice Recommendations* (the guidelines), provide opportunities for corporate boards to protect shareholders rights. The same rationale can be applied to other stakeholders concerned with the governance principles underpinning corporate results.

This paper examines board responsibilities and accountability by management and Board of Directors in relation to the National Australia Bank's (NABs) performance. The research objective is encompassed in the following question: 'Does poor corporate governance and lack of board oversight impact on financial performance, profitability and the share returns of a major bank?' The corporate governance problems faced by the National Australia Bank in 2004 are used as a case study to answer this question

The information available in the public arena is examined to describe a flow of events during 2003-4 that underpin NABs financial outcomes and the subsequent reduced return to shareholders. The essence of the subsequent constraints imposed by regulators and or other concerned parties on the firm, together with internal changes will be coupled with the study's flow of events to explain the role of directors and their vigilance particularly in relation to the internal control system.

The remainder of the paper outlines the literature on board responsibilities and internal control issues. This is followed by a brief history of the bank and the essence of the corporate governance and management problems. Profitability and cost measures of the five largest Australian banks are examined and compared over the period 2004-2005. A discussion of the findings is then followed by the limitations of the paper and its conclusion.

2. Literature Review

2.1 Corporate Failure and Loss of Board Control

In an analysis of the major corporate collapses in the last two decades, Acquah-Gaisie (2005) states that the major causes of corporate accountability failure have been due to:

- presence of weak boards of directors
- breach of director's duties
- poor management practice
- poor accounting and auditing standards
- breach of auditing standards
- investment bankers greed
- bribery and corruption
- ostentation and waste

The role of the board of directors, and the accounting and auditing standards is strongly evident. The Index of Confidence in Corporate Reporting Survey (CPA Australia, 2002) further substantiates the view that poor chief executive officer (CEO) and board performance is implicated in corporate failure. The survey respondents were found to have very low confidence in corporate financial reporting, with 73% responding that they believed that company boards and the top two executives were to a great degree responsible for the corporate collapses in Australia. Less blame was laid on external auditors, internal auditors and the rest of management.

Globally, the international collapses of Enron, WorldCom, Arthur Anderson and Parmalat, have eroded shareholder confidence in big business. In Australia a number of major corporate scandals have also occurred since the 1990s. These include financial institutions such as the State Bank of Victoria, State Bank of South Australia, Pyramid Building Society, HIH, and more recently the WestPoint property trust in 2006, and Bridgecorp and Fincorp Property Trusts

in 2007. The major Australian banks, whilst not suffering a corporate collapse, have not been immune from financial downturns. The Australian financial system experienced the worst losses in almost a century in 1990–1992, when the sum of individual bank losses exceeded AUD9 billion (equivalent to 2.25% of GDP and one-third of total shareholding funds (Gizycki & Lowe, 2000). Westpac Banking Corporation (WBC) experienced the largest percentage loss of 1.6% of GDP (AUD6.37 billion) followed by Australia and New Zealand (ANZ) bank with 0.85% of GDP (AUD4.69 billion), both in 1993. NAB recorded the next largest loss of the major banks with a 0.54% loss in 2001.

Corporate crises have been viewed as a generalized loss of control over organizational behaviour. The Australian Office of Bankruptcy (AOB) Annual Reports confirmed that over half of all corporate collapses could have been averted with good corporate governance. The AOB attributes the major causes of corporate failure to bad luck (1%), internal factors triggered by external factors (15%), and approximately 50% from internally generated problems that could have been controlled by managers (McRobert & Hoffman, 1997). These explanations of corporate failure confirm the conventional views regarding the *causes* of failure, but could be just as easily seen as the *symptoms* of failure. The key management danger areas are high gearing, the toleration of loss-making divisions for too long, concealment of bad debts and defects in management, all of which can be traced back to a lack of board oversight (Australian Prudential Regulatory Authority, 2004).

2.2 Agency Relationships

There are a number of relationships, a nexus of contracts that provide the resources or services to produce the output of a business firm. Intrinsic to these contracts is a delegation of authority for decision making from one party to another. For the performance of these services the principal relinquishes some of the decision-making authority to the agent, for example, the shareholder to the manager of the corporation, and management delegate authority to staff and contractors – the well-known agency relationship (Jensen & Meckling, 1976). Agency theory assumes that individuals act opportunistically in their own self-interest, which may not be aligned with the goals of owners, that is the return to shareholders. Incentives are provided through contractual arrangements to prompt the alignment of individual goals with the goals of the firm. Associated with this delegation of authority are the agency costs associated with management's lack of efficiency or opportunistic behaviour. One of these is the monitoring cost of auditing the content of the financial reports. An audit attests their reliability to external parties, thus reducing the cost to the firm of attracting future capital. Hence, congruent goals

between the board of directors, management and other stakeholders in a given firm would result in increased efficiency, throughput and profits with resultant higher stock prices.

Boards have an oversight role to ensure that the firm conducts its activities according to regulatory and legislative requirements and abides by standards of good corporate governance. This necessitates that policies, processes and controls, risk management policies and procedures, are in place throughout the firm, and these are closely monitored on an ongoing basis. In addition, this oversight role includes the systems that assure stakeholders that the financial reports contain information that is reliable and unbiased. More recently, Child and Rodriguez (2003) outline the 'double agency' and 'multiple agency' theories. They describe its occurrence where different groups of people in the firm make strategic operational decisions, magnifying the problems of accountability and control. It increasingly occurs as boards rely on information from the firm's employees or agents and in turn delegate implementation of their decisions to their employees. The strategic alliances that are formed with other firms external to the firm creates the possibility of double or even multiple agency problems occurring. The agent in this case may be an insider or a direct employee/ board member of the firm or may be external and belong to a partner firm. Williamson (1970) states that the board tries to overcome the external agency problems by relying on output controls and/or results. Firms rely on the internal controls of their processes and systems to underpin the reliability of the information communicated to top management, which then directly or indirectly via management decisions flows to the performance information provided to external parties. It is often the case in joint ventures, where each participating party has its own rationale for entering into an alliance, with each requiring that their interests be protected. In effect the managers can be seen to be serving multiple masters, each with their own interest. This has been extended as common agency theory, where all relationships between principals and agents are included. It recognises that the board is not only a means to control the agents, but the board itself functions as an agent of its owners, the shareholders. (Huse, 2007).

A variant of agency theory is stakeholder theory, where the shareholders are substituted by stakeholders. In this interpretation every stakeholder does not have the same position and stake as the shareholders. Shareholders usually invest for capital growth and are an amorphous mass of people or institutions (Crowther & Renu Jatana, 2005). In this context there remains little if any control on managers as shareholders tend to sell their holding if the shares do badly.

Agency theories have been the subject of criticism with experts blaming the agency theory for corporate collapses such as Enron, wrong in its focus and its negative impact on society. Huse (2007) states

that experts in game theory believe that agency theories only highlight a one-way relationship. He further argues that corporate governance is a game involving multiple actors with no clear demarcation between principals and agents.

Arthur *et al* (1993) present a counter-argument to these widely held beliefs. They suggest that firms create long-term wealth for their owners because these owners or shareholders are widely dispersed and cannot interfere in the running of the firm; the running of firms is best left to managers motivated by debt and capital structure. They stress that the relationship between principals and agents is one of mutual benefit.

Aguilera *et al* (2007) refute agency theory which assumes that in managing the principal-agency problem between shareholders and managers, firms operate better. They consider that agency theory ignores linkages between corporate practices and performance and devotes little attention to the distinct contexts in which firms are embedded. They consider that stakeholder theory better explains the impact of a wide range of firm-related actors. Naughton (2002) criticises agency theory as it highlights only one aspect of corporate governance and its failure, ignoring the entire social, political and organisational milieu in which the firm operates.

Managers cannot diversify the risks associated with a firm; should a firm fail the manager will lose their job. Managers therefore try to eliminate the risks associated with volatile investments and sudden variations in firm value and income by hedging against failure. This form of risk management does result in the reduction of agency costs (Cannon, Godwin and Goldberg, 2008). This paper does not deal with the other multiple facets of risk management which also result in improved firm performance.

2.3 Corporate Governance and the Board of Directors

There have been a number of studies that have examined the relationship between corporate governance, board function and performance. Studies by Collett and Hrasky (2005), Chiang (2005) and Doucouliagos and Hoque (2005) find a positive relationship between share price performance and firm performance, whilst Heracleous (2001), Korac-Kakabadse *et al* (2001) and Kiel and Nicholson (2003) don't necessarily find a relationship. The evidence is not clear-cut but intuitively there would appear to be a positive correlation between good corporate governance practice and good corporate performance.

By contrast, Sonnenfeld (2004) dismisses as myths, the many studies that attempt to measure good governance by suggesting a relationship between board structure and performance, board structure and equity, and the independent board. His point is illustrated by companies that experienced governance

crises, such as Enron and HIH. These companies all met the measures that are standard for assessing board function, such as director attendance (nearly perfect in Enron's and HIH's case), board size, number of other boards the directors sit on and number of independent directors. These are outmoded standards according to Sonnenfeld (2004), and the real question of how to assess and improve governance performance is yet to be answered. The question of how to measure the human side of governance procedures is still a challenge. Legal and accounting mandates such as the APG510 (Australian Prudential Regulatory Authority, 2006a) and the ASX Principles of Good Governance (Australian Stock Exchange, 2003) address only part of the challenge. It would appear that the human dynamics of boards, where leadership ability, decision-making processes, conflict management, transparency, inclusion of agents in the decision making and monitoring process and the like, can differentiate a firm's governance.

There is mounting evidence that the functioning and characteristics of the board of directors is associated not only to firm performance, but to the distribution of power within the firm (Lara, Osma and Penalva, 2007). Nicholson and Kiel (2004) describe the functioning of a board as multidimensional and its decision-making influenced by multiple factors. They formulated a diagnostic framework to analyse where and how boards are going wrong. The key inputs to the board performance relationship are organisation type, the company's legislative and societal framework, the organisation's constitution and lastly, company history, which reflect the broader influences of past events. The key elements that impact current corporate governance expectations are past performance, corporate culture, corporate values and decisions on board composition that will affect how the board functions. Further, these authors found that no single theory: stewardship, agency nor resource dependence theory can offer a complete explanation of the corporate governance – corporate performance relationship.

Board dysfunction may contribute to major corporate collapses and non-compliance with the law. It is often caused by a desire for board members to fall into line with prevailing views and majority decisions (Westphal and Khanna, 2003). Board members may be appointed because of their ability to be collegiate and not question management decisions, with members that ask too many questions being seen as trouble makers (Becht, Bolton and Roell, 2005). Board directors who have brought about changes such as increased board independence, firing a CEO for poor performance or separating the role of CEO from Chairman have found themselves ostracised at board meetings by the other board members. According to Westphal and Khanna (2003), the phenomenon of the 'corporate cold shoulder' helps create a dysfunctional board. Daily and Dalton (1993, p. 65) state that 'officers and boards of directors for the large scale

firm lack the discretion – or the wherewithal – to effect changes in policies and outcomes’.

It is not the number of the board members but rather their skill base, which seems to lead to better outcomes for the board. Monks (1998) believes that non-executive or “independent” members of the board are pivotal for good corporate governance but is highly critical of the processes that lead us to believe that members of the board that are “nominated” or “elected”, are “independent” and that shareholders “vote” for their choice of nominees. Monk’s view is that the legal terms are used contrary to their commonly accepted usage. That the members of the board are in fact appointed by the CEO and incumbents tend to dilute the board’s legitimacy generally, but most specifically in determining the CEO’s remuneration.

The duality of the board and management compromises the very function that the board is supposed to perform: that of being the watchdog for the shareholder (Sharma, 2004). Irrespective of the ownership pattern of the corporation, independent boards have been shown to be associated with a lower incidence of fraud and improved corporate governance. However, the definition of ‘independent’ remains open to interpretation by governments and courts (Harvard Law Review, 2006). Whilst various models to ensure board independence such as disinterested member, objective monitors and unaffiliated professional have been proposed, there is no single perfect working model (Van den Berghe and Baelden, 2005).

Matheson (2005) found that the causes of board dysfunction are almost completely related to poor communication and lack of teamwork skills. He found that disconnected board members are not committed to a clear direction and they lack an understanding of the principles and the laws of corporate governance and accountability. Consistent with agency theory, they pursue personal agendas and further, the lack of team spirit, distrust and inability to accept alternate points of view creates factions within the board, leading to ineffective communication, refusal to accept compromises, no contribution to the common goal and unnecessary argument amongst others.

Matheson’s prescribed formula for alleviating these ills requires that the board should have a formalised role and function, be provided with a code of conduct and be trained in conflict management. There should be regular annual evaluations by an independent authority, the engagement of skilled facilitators and increasing the moderating role of chairmen so their role is similar to that of the speaker in parliament. Shen (2005) points out that no amount of legislation in isolation will ensure adequate performance by board members. The things that matter are remuneration, stock options and ownership, to increase effectiveness of *both* executive and non-executive directors.

The following case study of the National Australia Bank focuses on its poor corporate governance practices due to lack of transparency of operations, the lack of oversight function of the board, and the failure of the board’s risk assessment and control functions. The factors that played a key role in NABs case were the corporate values and corporate culture that focused on profitability and ignored risk procedures.

3. Research Method

The case study is of an Australian bank that has significant operations throughout the country and international affiliations. The bank was chosen for this study because it offered suitable insights into the responsibility of the board and auditors as a result of the financial transactions that adversely impacted the bank’s performance.

The use of only one case study is supported by Yin (2003) and Ahrens and Dent (1998). These latter authors consider accounting should be studied in an organisational context (in this paper accounting includes the auditing function). Their results are connected to a theoretical framework. Yin (2003) suggests a single case-study can be used where the case represents an ‘extreme or unique’ case. The occurrences and outcomes of activities within the National Australia Bank represent a ‘unique and extreme’ situation which is considered applicable for a single case study.

Using content analysis, secondary data sources including annual reports, were analysed as proprietary information was unavailable. Given the specific issues associated with this firm are not able to be generalised to the entire financial community; the issues are consistent with a generalised scope of board responsibility (See Table 1). These aspects were the primary focus when analysing the data. The term corporate governance is used in the sense of Board responsibility for the oversight function.

Insert Table 1 here

In addition, NAB’s performance against the other four large banks in Australia (Commonwealth Bank of Australia (CBA), Australia and New Zealand Bank (ANZ), Westpac Banking Corporation WBC) and St. George Bank) is compared over the period 2004 to 2005. The annual reports of all five institutions and KPMG Financial Institutions Performance Surveys 2004-2005 were analysed for cost and profit ratios, share price and total shareholder as measures of performance and profitability.

4. Discussion and Findings

4.1 Background

The National Australia Bank (NAB) is an international financial service provider with its

business located in Australia, the United Kingdom, New Zealand and the USA. It is the largest financial services institution listed on the Australian stock exchange and is within the 30 most profitable financial services organisations in the world. National Australia Bank Limited traces its history back to the establishment of the National Bank of Australasia in 1858, it became a public limited company after incorporating on June 23rd, 1893.

NAB is the largest financial institution listed on the Australian Stock Exchange by total assets. In September 2007, it was among the 30 most profitable financial service organizations in the world with total assets of more than AUD564.6 billion. NAB is an extremely profitable bank with in excess of AUD2 billion in profits reported in 2005 and AUD4.1 billion in 2006 but acknowledged publicly that poor governance procedures and board dysfunction had impacted on its reputation and its overall performance in 2004-5.

4.2 Flow of Events

NAB's venture into U.S offshore mortgage markets in 2001 resulted in HomeSide, a home loan subsidiary of the NAB, losing AUD4.1 billion (Credit Collections World, 2001; Tyson-Chan, 2006). This was due to a miscalculation of interest rates and loan repayment schedules. The exposure of the fraudulent foreign exchange traders occurred in January 2004 and was followed by significant board disruption (see Table 2 for a chronological listing of events). Additionally, NAB and ANZ banks were found to be in breach of the U.S. Securities Exchange Commission (SEC) requirement of auditor independence (Oldfield & Cornelli, 2004).

Insert Table 2 here

Currency option losses occurred as the Foreign Exchange traders positioned NAB's foreign currency option portfolio. The expectation was that the falls in the U.S. dollar that occurred in mid-2003 would reverse and that volatility would stabilise. Four traders took part in fictitious trades which allowed the currency options desk to falsely report a \$37 million profit in October 2003, when its real position was a \$5 million loss, the fictitious profit protected the performance bonuses of the traders but eventually caused losses of AUD360 million to be recorded in 2004. Rather than close out their positions as the market moved against them, the traders chose to conceal their true positions, allowing those positions to deteriorate before they were finally discovered and reported to management by junior employees (Australian Prudential Regulatory Authority, 2004).

Once the AUD360 million foreign currency losses became public in January 2004, NAB appointed Price Waterhouse Coopers (PwC) to investigate the irregular trading of foreign currency options. Concurrently, the Australian Prudential

Regulatory Authority (APRA) undertook a review of the bank's practices. Almost immediately concerns regarding the independence of the PwC report were raised, as PwC became the "external experts" asked by the NAB to audit the scandal. The independence of the PwC investigation was compromised as they already had a close and extensive relationship with the NAB board, with business links between the bank and PwC likely to cause a number of potential conflicts of interest. In particular, NAB director, John Thorn, who had been the PwC financial services auditor and a PwC senior partner, left PwC in September 2003 to join the NAB board just two weeks later. PwC earned fees of AUD17 million in 2003 from NAB, nearly twice the fees earned by NAB's own auditor KMPG (Myer, 2004). Elevating this report to the status of an independent report left it open to criticism, particularly as Board member Catherine Walter had already begun raising concerns about the independence and probity of the PwC investigation.

Walter raised two issues of concern: firstly, the inappropriateness of appointing Graham Kraehe, to the chairman's position after Charles Allen stepped down. Kraehe had been the board member presiding over the internal risk committee, which had failed in its basic requirement to manage NAB's risk practices. Secondly, Walter questioned the appropriateness of this committee being charged with the responsibility to oversee an investigation into the breaches of risk policy, the very issues that they had failed to identify in the preceding months. Walter's concern was that there was the potential to influence the contents of the report and because of the business relationship with NAB; essentially PwC would have been investigating their own work. Deloitte, Touche & Tohmatsu and the law firm, Blake Dawson, were brought in to oversee the probity issues and found that there were no issues that PwC were required to answer.

Walter's allegations of flaws and lack of independence in the PwC investigation were rejected by the Board of directors. A public boardroom split ensued, when due to a loss of confidence, they called for Catherine Walter to resign. Walter resisted the pressure to quit and faced with an Extraordinary AGM, she put forward a counter proposal for all seven non-executive directors to step down as their terms came to an end.³⁸ The NAB board at this stage had become entirely dysfunctional and were unable to work together to give management a clear direction. The inexcusable losses that reflected badly on management and the board of directors should have been dealt with promptly. Instead the NAB board endured a three-month period of criticism and counter criticism in the public arena (McCrann, 2004). To exacerbate matters, the new CEO, John Stewart, was drafted onto the Board Committee to manage the

³⁸ The Board does not have the power to sack board members; it must of necessity call an Extraordinary Annual General Meeting, as only shareholders have the legal right to remove directors.

proposed Extraordinary General Meeting (EGM). This was further seen as a totally inappropriate role for management to be appointed to sit in judgement of Board members; instead this should have been a totally independent committee.

Regardless of the veracity of Walter's allegations regarding the PwC report, the NAB Board failed to handle accountability by allowing Chairman Charles Allan and CEO Frank Cicutto to leave precipitously before the release of the PwC report. Removing these individuals from the public arena left the Board with no one to take responsibility for the events that had occurred at NAB and the breach of their risk systems. A pattern of poor accountability by NAB board members emerged with transparency and disclosure issues not only over the actions of dissident director Catherine Walter. It seemed that the market wanted retribution for the earlier HomeSide losses of 2001, which had not been dealt with adequately by the board in 2001³⁹.

Within two months of the foreign currency scandal becoming news the NAB board was in disarray. The bank lost a majority of their key personal consisting of their board chairman, CEO, chief financial officer, the head of its corporate and institutional banking division, head of markets, head of risk management and a string of other managers and staff (Bartholomeusz, 2004b). The loss of key staff contributed to part of the market judgment and mark-down of NAB share price over the months that followed. The public expunging of the board and top management positions may have been necessary to remove perceptions – real and imagined – relating to lack of accountability and the breaches of corporate governance internal controls. In APRA's report to the Parliamentary Inquiry, there is a strong indictment of the NAB Chairman, the head of risk management and the CEO (2004).

The chairman of the APRA, John Laker, held the view that the APRA Report on risk management received 'a fair degree of resistance at NAB' and was not passed on to the board in January 2003. This report was ignored. The Bank gave a commitment to APRA to meet a timetable for remedial risk management action based on an August 2003 on-site meeting with regulators. Again, neither the Chairman nor the Board took any action. By not passing on a subsequent APRA letter alluding to issues with risk

management practices, the board let an operational and compliance void be exploited by the traders while their superiors did nothing.

4.2 Control Measures

The OECD Principles of Corporate Governance relating to the Responsibilities of the Boards requires the board to be fully informed, act in good faith and with due diligence (See Table 1). It is questionable whether NAB board of directors could claim that they had taken their responsibilities seriously enough.

Before the much publicised losses in 2003 NAB formed a new committee called the Principal Board Audit Committee (PBAC). Its role was to discuss and investigate any high-risk issues that were raised by either the Internal Audit or the external auditors, KPMG. NAB also introduced a new Internal Audit rating system that would directly report to the PBAC. The chairman and then CEO were part of new Audit Committee with direct lines of accountability and responsibility to the Board (National Australia Bank, 2004). Despite the committee being held responsible for reviewing risk management practices, there were no meetings held during 2003 although warnings had been issued concerning risk management practices by both the external auditor as early as 2001 and APRA in mid-2002 following an on-site visit to the bank (Grant, 2005).

The internal Audit Committee failed to discover fraudulent practices in their review of NAB accounts but over the next couple of years the external auditor was to flag areas of concern that were rated minor, for example, KPMG listed in both their 2001 and 2002 Reports to the Audit Committee that there were some 50 items of possible weaknesses in need of attention. These were classified as minor, not representing a threat to the integrity of the accounts and as such they did not attract the attention of the PBAC. In 2003 KPMG signed off on the accounts, but now the concerns had been upgraded and were listed as major concerns. At the same time, an APRA report detailing issues of concern relating to risk management practices in currency dealing rooms was handed to the chairman in January 2003 (exactly one year before the foreign currency scandal broke) but failed to deliver any action (Australian Prudential Regulatory Authority, 2004). In light of the NAB experience, auditors and regulators are now unlikely to attach a major/minor issue to a report or allow a report to go un-actioned. Each concern will have to be dealt with by the audit committee before auditors will sign off and regulators will be looking for compliance by boards or generic, more expensive regulator models for risk.

Following the foreign currency losses APRA's review considered the NAB internal control frameworks satisfactory and that faults that occurred lay with the implementation of existing safeguards rather than the design of the safeguards themselves. Frank Cicutto, the then CEO, stated that traders at the

³⁹ For a more detailed explanation of the NAB losses on HomeSide (AUD4.1 billion) that followed their naive venture into offshore mortgage markets in 2001 and the currency option losses caused by the traders positioning NAB's foreign currency option portfolio in expectation that the falls in the US dollar that occurred in mid-2003 would reverse and that volatility would stabilise see Thomson and Jain (2006). Rather than close out their positions as the market moved against them, the traders chose to conceal their true positions, allowing those positions to deteriorate before they were finally discovered and reported to management by junior employees (APRA, 2004). Frank Cicutto, the then CEO, stated that traders at the center of the scandal had exploited weaknesses in the bank's internal procedures to hide trading losses and protect bonuses.

centre of the scandal had exploited weaknesses in the bank's internal procedures to hide trading losses and protect bonuses. Thus losses could be attributed to an operating environment characterized by lax and unquestioning oversight by line management; poor adherence to risk management systems and controls; and weaknesses in internal governance procedures.

This type of behaviour is congruent with double/multiple agency issues endemic in every organization, and in the self-interest aspect of human nature (Child and Rodrigues, 2003). Even if the report had been tabled, self interest may have prevented individual Board members from acting in the best interests of NAB. Fear of being ostracized and the 'corporate cold shoulder' may have prevented Board members from acting on information or questioning other board member responsibilities.

NAB's issues of fraudulent trading in their foreign currency room and board dysfunction were severe. To complicate management issues further a new CEO was appointed. This was in the midst of falling margins in its British operations and increased regulatory costs as it prepared for international accounting reforms. The bank needed a strategic direction, but there was no effective leadership team to guide it (Bartholomew, 2004 a). During the April to May 2004 period, board infighting reached new heights and an Extraordinary General Meeting of shareholders was called to consider resolutions to remove all remaining board directors. NAB competitors started to exploit the reputational damage being done to the number one bank in Australia by targeting a range of NAB's customers including corporations, medium- to small-sized businesses as well as their retail customers and clients. NAB needed a quick response, at any cost, as total assets were growing at only 2% (See Table 3). This compared to ANZ, the best performer with an asset growth of 32% in 2004 and 13% in 2005 and the finance industry average of 6.8% asset growth. Some measures implemented immediately were the waiving of mortgage fees, raising interest rates on deposits and the introduction of new products in order to entice consumers. These measures further contributed to NAB's ballooning cost to income ratio, and in turn affected their bottom-line profitability.

5. Performance Measures: NAB Compared to the Major Banks (2004-2005)

A review of NAB and the major bank's performance over the two-year period 2004-2005 found that NAB had the lowest Operating Profit after Tax/ Average Total Assets, (0.79% in 2004, improving to 0.99% in 2005 but still below the sector average of 1.13%). NAB ranked last with return on shareholder equity of 15% in 2004, significantly below the sector average of 18.5% (See Table 3). During this period the sector average was considered by KPMG to be below the industry benchmark of 20%. The average return on

equity for the sector reached 21.02%, in 31 March 2006, to rise above the benchmark for the majors for the first time, with all the majors, except NAB, achieving the 20% benchmark (KPMG, 2006).

Insert Table 3 here

In terms of the Net Interest Income/Average Total Assets Ratio, NAB performed poorly in comparison to its peers, having the lowest ratio at 1.70%. St. George, the smallest of the group, performed the best at 2.31% against a sector average of 2.01% (KPMG, 2005). The larger the Net Interest Margin, other things held constant, the greater will be the contribution to profitability. NAB's interest margin is the narrowest of all five banks at 2.2% compared to the average of 2.42% (See Table 3).

In terms of profitability, NAB was the only major bank to show extremely large declines in both before-tax and after-tax operating profits (-15.8% and -19.7% respectively) in the year 2004. This compared unfavourably to the sector averages of 9.0% and 6.4%. In 2005, NAB, along with the CBA experienced very strong growth. Both these measures returned to positive figures and significantly higher than the industry sector average with before-tax profit recorded at 37.9 % against the sector average of 27.2% and after-tax profit of 30.1%, compared to the average of 25.1% for 2005 (See Table 3).

The cost to income ratio (operating costs/operating revenue) was of some concern to NAB, particularly when it jumped to 57.4% in the March 2004 half-year report, up from 50.8% at the same time in 2003 (National Australia Bank, 2004). The ratio is sharply higher than any of its four main rivals, ANZ reported a cost to income ratio of 52.7%, Westpac's fell to 48%, while St George bank boasted the lowest cost to income ratio of just 45% compared with the sector average at 49.2% (KPMG, 2004). At the time NAB was the largest bank in Australia by capitalization and size of total assets. By no means was it the best performer. It lagged behind the other four major banks in most key financial measurements, and particularly in the cost-to-income ratio, which had risen rather than followed the industry trend downwards. A measure of growth is the increase in total assets. Whilst all banks experienced positive growth in total assets, once again NAB had the lowest growth of the five banks, with 2% increase in total assets in 2005, less than a third of the sector average of 6.8%, and in 2004 at 3.5% only one quarter of the major's average of 13.1%.

Kohler (2004) estimates that further costs to NAB and its shareholders have been in the vicinity of AUD2 billion, measured by the fall in the market value of its shares. Following the currency trading losses NAB's earning per share were approximately AUD2.50 a share, at a share price of AUD30, the price/earnings was 12 times, whilst CBA and Westpac were selling at 15 times earnings. Two years earlier in 2002, NAB had been earning at 15 times earnings and

if re-rated in 2004 the share price should have been nearer AUD37.50, instead of the AUD28.85. This would be similar to what CBA, NAB's nearest competitor, was trading at in 2004 (See Table 3).

Share price and total shareholder return (TSR) are two further measures of performance, with the former being easily observable and reflecting the market and shareholders' views directly whilst TSR (expressed as a percentage) can be easily compared from company to company, and benchmarked against industry or market returns, without a bias regarding size. The Global Investor Opinion Survey on Corporate Governance found that 73-78% of investors would be willing to pay a higher share price and that 57% would change their holdings for a well governed company (McKinsey & Company, 2002).

NAB had previously experienced a dramatic fall in share price with the announcement of the HomeSide losses in July 2001. The NAB share price experienced a sudden fall of 5.5% on the NYSE (Credit Collections World, 2001). The impact was more dramatic and significant on the ASX with NAB's ordinary share price falling 33% from a high of AUD35.13 in July to a low of AUD23.80 by September 2001. The announcement of the foreign currency scandals, followed by the very public board controversy, caused NAB share price to fall 19% from a high of AUD32.12 in January 2004 to AUD26.04 by September 2004, followed by a slow partial recovery in the share price (Table 3 and Figure 1).⁴⁰

Insert Figure 1 here

The TSR performance represents the change in capital value of a listed company over a period (typically 1 year or longer), plus dividend, expressed as a plus or minus percentage of the opening value (Value Based Management, 2006).⁴¹ Given the HomeSide losses of 2001 and the tumultuous board events that followed the currency trader losses in 2004 it was to be expected that there would be some fallout and evidence of market discipline on share price and hence on the more comprehensive TSR performance measure. The TSR provides a compelling picture; recorded at just 7% in 2001 but rebounding back to 38.6% in 2002. The year 2003 saw the TSR fall to -1.8% and fall even further in 2004 to a low of -5.2%, lower than any of the opening values recorded between 2001 to 2005, but as the share price recovered over the latter half of 2004 the TSR rebounded once again to 32.3% (Figure 2). The TSR is an important measure of performance for shareholders and investors. The positive 32.3% in 2005 reflected the improvement in NAB's capital

value. This provided a signal to the likely direction the share price would follow, the return to the investor and giving some indication of whether to invest in the share or not.

Insert Figure 2 here

The comparison between NAB and its peers' data is sufficiently strong to draw some inferences regarding board governance issues and performance. In every measure - the measures of profitability, cost ratios and share price fluctuations that are shown in Table 3, and Figures 1 and 2, NAB has the lowest profitability measures and highest cost ratios of the five banks included in the major banks grouping. The findings provide strong evidence for suggesting that the events that NAB suffered during the 2001-2004 years had a significant impact on their profitability, ROA, ROE, cost-to-income ratio, TSR and share price.

6. Regulatory and Voluntary Outcomes

6.1 Regulatory Requirements

The consequences of the NAB board and risk committee failure to address the risk issues noted by the regulators and other foreign exchange industry players in the previous twelve months were costly for NAB. APRA required NAB to comply with and implement a series of 81 remedial actions with on-site supervision imposed until the actions were fully implemented. NAB's approval to use an internal model to determine market risk capital was withdrawn and the currency option desk closed to corporate business until all areas of concerns in the APRA Report were addressed. A number of risk management strategies had to be implemented prior to NAB's foreign currency option desk could re-open over a year later in May 2005. This included increased monitoring of all market risk limits with mandatory "hard" limits and trigger or "soft limits" which included a defined response.

Furthermore, the regulator raised NAB's internal target total capital adequacy ratio to 10%, up from the Group's previous internal capital ratios of 9-9.5% (APRA, 2004).⁴² NAB dealt with the additional need for capital by raising \$2 billion of subordinated debt and a \$1.2 billion underwriting for its dividend reinvestment plan in order to keep the \$0.83 cents semi-annually dividend payout unchanged while still meeting the new 10% capital requirements. Their plan to use an investment bank to underwrite the dividend reinvestment plan meant that investors should have been made aware of the fact that NAB was disguising an ordinary capital raising in the form of a dividend (Hughes, 2004).

⁴⁰ The share data in Figure 1 doesn't capture the full extent of the share price drop in 2001 as the data is year-end share price.

⁴¹ Calculation of Total Shareholder Return Formula (TSR) = (Share Price at the end of the period - Share Price at the beginning of the period + Dividends) / Share Price at the beginning of the period = Total Shareholder Return.

⁴² Australian Banks adhere to the international capital adequacy requirement of a minimum 8% risk-weighted capital.

The aim of an independent board is to reduce agency costs (Harvard Law Review, 2006). Independence makes the board accountable to shareholders for performance and is also the key to increasing informational transparency. To this end, the Prudential Standard APG510 (Australian Prudential Regulatory Authority, 2006a) policy document prescribes minimum standards for good corporate governance, which also include board renewal, minimum expertise levels, diligence, prudence and oversight function levels. The parallel policy Prudential Practice Guide: Governance APS510 (Australian Prudential Regulatory Authority, 2006b) dictates that a company board in Australia must have an audit committee.

The scope of Board role and functions now extends beyond its fiduciary and regulatory function to include compliance with the law of the land. The board is now ultimately responsible for all decisions and actions of the corporation (Australian Prudential Regulatory Authority, 2006a, 2006b). Section 16 of the APG510 requires that a Board must have a majority of independent directors at all times and that the chairman must be an independent director and cannot have been the CEO in the previous three years. Clear requirements are made for independent directors and independence must comply with the ASX Corporate Governance Council's *Principles of Good Governance and Best Practice Recommendations*. The board needs to have a charter of roles and responsibilities, which may include:

- delegation of authority
- ensuring the requisite skills of management and board members
- fulfilling residency requirements for companies registered in Australia
- must be available to meet APRA
- on request, providing external auditor with the opportunity to raise matters directly with the board
- ensuring a composition that complies with legislation
- ensuring representation consistent with shareholding
- appointing a Board Audit committee
- reviewing audit plans
- ensuring auditor independence
- evaluating risk
- having effective risk management plans and committees in place
- establishing performance assessment indicators for itself
- having a formal board replacement policies (Australian Prudential Regulatory Authority, 2006a, 2006b).

6.2 Voluntary changes

The board culture that had developed at NAB had been described as 'too big, too old, too male, too full of ex CEOs and too many insiders' (Cornell, 2004).

The resulting board was one that had the right ingredients to create a dysfunctional board that would quickly apply the corporate cold shoulder to any board member who was willing ask the hard questions and disturb the board equilibrium. The review of NAB's practices by APRA suggests that problems existed in the culture of the institution for some time. The environment was seen as lax; those responsible for overseeing risk management failed to either identify or follow up the limit breaches and other irregularities coming from the foreign exchange desk. Cornell (2004) stated "Stewart (the new CEO) was not just unwinding the past five years of mismanagement under Cicutto, but he is also unwinding the disasters from the preceding CEO". The apparent complacency by the management and the Board seems to have stemmed from the HomeSide incident, if not before. Maiden's (2004) view is that seeds were sown in 2001 when no director or board member took responsibility or the 'fall' for the AUD4.1 billion losses that occurred.

NAB board and management recognized the public backlash that occurred against the bank when the foreign currency losses and subsequent board dispute revealed that there were shortcomings in its culture and management systems. In response to stakeholders' needs for greater transparency and accountability NAB committed to a strategy to change the culture of the institution and rebuild trust and relationships. To accelerate cultural change the bank developed a new set of Corporate Principles and Behaviours with the cultural change being reinforced by leadership change at Board and senior management levels. Lynne Peacock, an executive director of the National in Europe, was moved to the Melbourne office and appointed the responsibility to oversee cultural change and improve NAB's governance processes.

Six months later a new streamlined leadership team was finalized that comprised a mix of executives, some from each of the three existing businesses and a number of external executives with a range of business experience (National Australia Bank, 2004b). To complement these strategies NAB developed a new business structure based on its three regional businesses (UK, NZ and Australia) within the group framework so that each business can focus on its own needs and develop strategies appropriate to its own local needs and opportunities (National Australia Bank, 2005a).

6.3 Accountability and the Role of the Regulator

How accountable was APRA as the banking industry's key financial regulator? There would seem to be a need for increased and more effective monitoring by the regulator and the question should be asked whether APRA was proactive enough. It appeared that there was considerable laxness in APRA's oversight of NAB with a failure to act promptly to

warning signals (National Australia Bank, 2004). Additionally, APRA's reliance on the PwC investigation into the foreign currency losses seemed inappropriate. In future, to avoid potential conflicts of interest the regulator may need to have sufficient resources to run its own independent audit committee/investigative committee rather than relying on one of the big four accounting firms to undertake the factual part of the review, as happened in the NAB review. Mandatory 'arm's length' investigation and more powers to be granted by legislation to the regulatory body may mitigate some of these concerns.

The Wallis Report (1997) established APRA as a light-handed regulator, but the collapse of HIH in 2001 led to strong criticism that the regulator had been 'asleep at the wheel'. The subsequent Royal Commission into the HIH AUD5.3 billion collapse found that APRA had several deficiencies, including staffing shortfalls, outdated legislation and an inadequate supervisory methodology. Post-HIH these inadequacies have been addressed and APRA has been given greater investigatory responsibilities (Grant, 2005). Whilst APRA's response to NAB's trading losses and breaches of risk management guidelines was swift and severe in terms of the conditions imposed upon NAB in March 2004, the impact of its actions were blunted when it is realised that the regulator had concerns as early as 2003.

Following on-site visits in 2003, APRA expressed these concerns to the NAB board and management but failed to follow-up. Warnings should have been issued that unless the foreign currency irregularities were investigated and cleared to both the internal and external auditors' satisfaction that closure of the foreign trading desk would occur. The lack of proactive behaviour by APRA in the NAB instance was similar to what occurred in regard to the HIH case. It appeared that APRA's own simulation of HIH data on proposed new capital standards found that HIH would have failed those capital requirements as far back as 1995. There was no consideration of bringing that information to the APRA board level and calling HIH to account. The APRA Chairman, Jeffery Carmichael, when asked, agreed that it was something that APRA should have done (Jay, 2001). Whilst there are signs that the regulator may have been insufficiently proactive, particularly prior to 2003, it could be argued that its prompt actions once the NAB foreign currency losses became public in January 2004 prevented further losses occurring at the bank and prevented a loss of confidence occurring in the financial institution (Australian Prudential Regulatory Authority, 2004). The foreign currency trader misfortune has resulted in all traders being found guilty in a court of law (Murray, 2006).

7. Limitations of the Paper

The use of a single case study has traditionally been viewed as a 'poor base for generalising' and may limit the external validity of this research (Yin, 2003).

However, the findings can be applied to other financial institutions in the same geographical location who fail to install similar measures of monitoring and control for their agents and sub agents.

The findings in terms of the agency theory aspect and the ensuing ASX charter of rules can be generalised to any board and its members, albeit stemming from different situation. That is the shareholder and indeed stakeholders may be penalised for failure to install adequate control and monitoring systems.

The limitations of this study extend to those associated with the issue of data which was obtained from information available in the public arena. The use of content analysis and its application to secondary data introduces a degree of subjectivity into the study, and its findings should be interpreted accordingly.

8. Conclusion

Despite the NAB suffering significant losses during the period 2000-2005, at no time was it at risk of a potential bank failure. However, similar to HIH, World Com and Enron, NAB directors appear to have failed to respond to early danger signals. A junior member of staff, acting as a whistleblower, brought to management attention the practices of the foreign exchange desk that occurred unchecked due to lax oversight and failure to implement the NAB's own risk management systems.

The case study indicates that the NAB directors failed to ensure transparent systems of control and accountability of the divisions within the organisation. Lack of ongoing monitoring systems and complacency by management appears to have led to significant falls in profitability, loss of shareholder value and climbing cost ratios. The comparison of the NAB's performance with the other major Australian banks in 2004-2005 tells a compelling story of under-performance that is consistent with the events that occurred. NAB under-performed all other major Australian banks in terms of profits, cost to income ratio and growth in assets. In the measures of profitability and cost efficiency examined, NAB had the lowest ROE, ROA and net interest income/average assets and the highest cost to income ratio of any of the five largest Australian banks. Additionally, these measures of profitability and costs for NAB were below the industry sector average.

The falling profitability and increasing cost structures are consistent with the self interest and inefficiency aspects of agency theory and multiple agency theory. The good intentions of the NAB Board were not sufficient to protect the interests of the shareholders. Shareholders were the ultimate losers as market forces saw the NAB stock price fall by 19% providing support for the contention that poor corporate governance and lack of board control resulted in a negative impact on shareholder return.

The focus of this study has been on the shareholder, but the outcomes of control and regulation will reflect on all stakeholders interested in the activities of the corporation. Matheson (2005) believes that clear formalized roles for board members and training would alleviate most board dysfunction. The implementation of these suggestions would do much to improve board performance and accountability. It remains in the shareholders interest to continue to monitor both board and management function, while in turn they should monitor the actions of their contractors.

The results of this study support a more proactive stance by management and regulators. As management and regulators react to issues of public concern resulting from a firm's activities the adverse outcomes have already had financial consequences for many of the NAB shareholders. It is apparent that a lax Board, in relation to their oversight role to monitor the regulatory and voluntary policies and procedures, can result in loss of reputation and shareholder unease. This case study provides an Australian example of poor corporate governance and suggests that financial institutions and regulators can learn from the NAB's experience. Failure to have top-down accountability can have significant impact on over-all performance, profitability and reputation. In particular, it suggests that management and Boards need to review their risk management procedures and regulators need to be more pro-active in their prudential oversight of financial institutions.

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Appendices

Table 1. OECD Principles of Corporate Governance

The Responsibilities of the Board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

- A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.
- B. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.
- C. The board should apply high ethical standards. It should take into account the interests of stakeholders.
- D. The board should fill certain key functions, including:
 - a. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives, monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
 - b. Monitoring the effectiveness of the company's governance practices and making changes as needed.
 - c. Selecting, compensating, monitoring, and when necessary, replacing key executives and overseeing succession planning.
 - d. Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.
 - e. Ensuring a formal and transparent board nomination and election process.
 - f. Monitoring and management potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.

Source: OECD Principles of corporate Governance, (2004, p. 24).

Table 2. Chronological order of events at National Australia Bank 2004-2005

2004

2 February: National Australia Bank Chief Executive Frank Cicutto resigned following disclosure that the Bank could lose up to \$360 million in foreign exchange trading losses. The Board immediately appoints a new CEO.

The foreign exchange scandal followed a number of losses at NAB which raised questions about the effectiveness of its risk management systems, controls and internal reporting.

16 February: National Australia Bank Chair Charles Allen resigned and Graham Kraehe appointed as Chairman.

Other than stating "I believe that this action is in the best interests of the Bank and its shareholders", no explanation was given.

24 March: APRA releases its report

26 March: 7 non-executive directors request general meeting.

29 March: Mrs Walter submits request for general meetings

1 April: Blake Dawson Waldron (BDW) advised on probity and governance matters relating to the PricewaterhouseCoopers (PwC) report into foreign exchange options trading losses.

2 April: The Board of Directors of the National Australia Bank announced that it has approved the formation of a committee to manage the proposed Extraordinary General Meeting and consider resolutions submitted by Mrs Catherine Walter.

6 April: Board renewal program announced

7 April: The Board announces it intends to appoint a new external auditor.

19 April: NAB announced that it will hold General Meetings of shareholders on Friday 21 May 2004.

There will be three separate meetings, as required to consider three different sets of resolutions submitted by Directors in three separate Notices served on the Company.

The first meeting will consider a resolution submitted by seven non-executive Directors on 26 March 2004 to remove one Director, Mrs Catherine Walter, as a Director of the National Australia Bank.

The second and third meetings will consider two sets of resolutions submitted by Mrs Walter on 28 March 2004 to remove all the non-executive Directors of National Australia Bank over time, to censure the Board, to request a search for a new Chairman and to express views as to re-election of non-executive directors and retirement benefits.

28 April: NAB announces it has received a request from one of its Directors, Mrs Catherine Walter, to release a copy of working papers by PricewaterhouseCoopers (PwC) that were part of its inquiry into irregular foreign currency options trading earlier this year.

5 May: resignation of 2 NAB directors announced

6 May: Mrs Walter announces resignation

7 May: NAB announces cancellation of SGM's.

21 June: Michael Chaney appointed to Board and will be Chairman from September 2005.

2005

17 June: Jail Term for NAB Trader

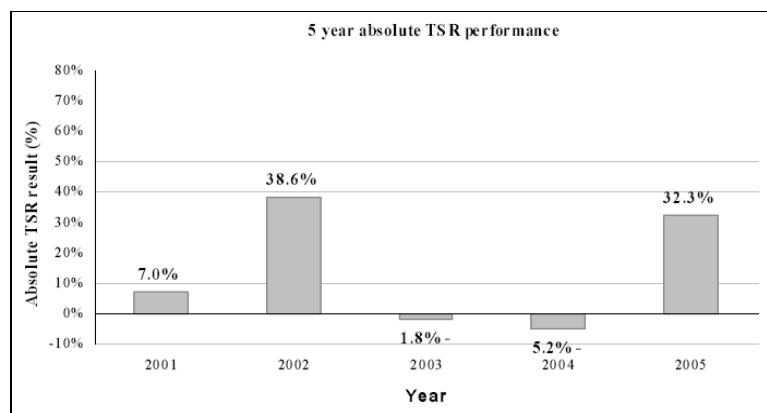
Source: The Australian Compliance Officer's Toolbox

« Responding to Business Crimes Investigations | Main | Internal controls for treasury Accessed on http://www.djacobson.com/compliance_toolkit/2005/10/national_austra.html»

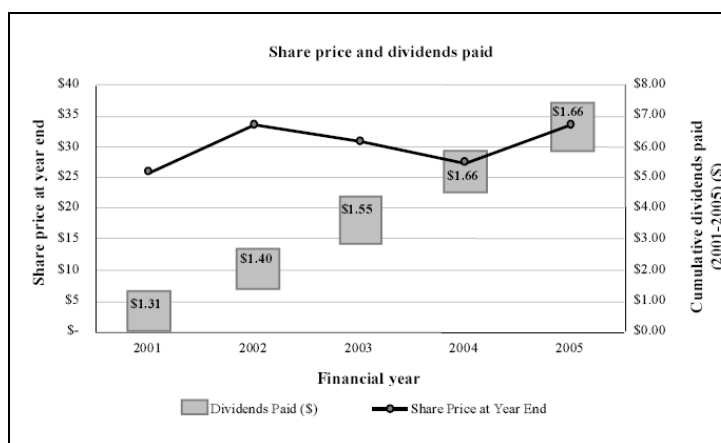
Table 3. Comparison of NAB with the Major Banks 2004-2005

	Year	Operating Profit After Tax/ Average Total Assets %	Return on Shareholders equity %	Net Interest Income/ Average Total Assets %	Interest Margin %	Cost to Income Ratio %	Increase in total assets %	Increase in Operating Profit Before Tax %	Increase in Operating Profit After Tax %	Share Price \$	Dividend Payment \$
Australia and New Zealand Banking Group Limited	2005	1.09	17.5	2.10	2.35	45.6	13.0	6.7	7.2	28.5	0.56
	2004	1.24	17.8	2.31	2.49	45.3	32.6	21.7	19.9	20.82	0.51
Commonwealth Bank of Australia (CBA)	2005	1.26	16.0	1.88	2.45	50.2	7.5	46.7	55.2	45.30	0.94
	2004	0.90	12.7	1.89	2.53	59.2	15.4	29.1	27.8	39.95	0.85
National Australia Bank Limited	2005	0.99	15.0	1.70	2.20	57.7	2.0	37.9	30.1	37.70	0.83
	2004	0.79	15.8	1.78	2.35	54.1	3.5	(15.8)	(19.7)	28.85	0.83
Westpac Banking Corporation	2005	1.12	21.4	2.08	2.50	46.6	6.0	18.8	11.0	30.84	0.56
	2004	1.09	20.7	2.04	2.53	49.2	10.7	19.6	16.3	24.50	0.49
St.George Bank Limited	2005	1.21	22.6	2.31	2.59	45.5	10.9	14.5	16.2	23.82	0.74
	2004	1.16	21.4	2.43	2.70	47.5	11.6	16.1	16.6	19.03	0.67
TOTAL 2005		1.13	18.5	2.01	2.42	49.1	6.8	27.2	25.1		
TOTAL 2004		1.04	17.7	2.09	2.52	51.1	13.1	9.0	6.4		

Source: KPMG (2004, 2005) Financial Institutions Performance Surveys

**Figure 1.** NAB Total Shareholder Return Performance

Source: National Australia Bank, Annual Reports (2001-2005)

**Figure 2.** NAB Year-End Share Price and Dividends Paid 2001-2005

Source: National Australia Bank, Annual Reports, (2001-2005)