Towards a systematic approach to credit union governance

Paul A Jones PhD

Research Unit for Financial Inclusion

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Classic definition of governance

- Corporate governance is the **system** by which companies are directed and controlled.
- **Boards of directors** are responsible for the governance of their companies.
- **The shareholders' role** in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.
- The responsibilities of the board include setting the company's **strategic aims**, providing the leadership to put them into effect, supervising the **management of the business** and reporting to shareholders on their stewardship.
- The board's actions are subject to laws, regulations and the shareholders in general meeting"

(first version of the UK Corporate Governance Code produced in 1992 by the Cadbury Committee)

Board of directors or committees of management?

- Most CUs established as small co-ops
- Directors elected to direct, control, oversee and usually manage the business
- Board meetings typically staff meetings
- Functions of governance and management overlapped

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The transition to professional management

- Challenging for directors
- Hard to let go of operational engagement
- And focus on the specific board function of governance
- Thinking about governance and management often remain interwoven.

Some typical scenarios

- When directors employ staff teams
  - They continue to micro-manage or meddle
  - The chair acts in practice as the real CEO
  - They just rubber stamp and approve management decisions

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The challenge of the research study

- To set out the principles of a logical, consistent and integrated system of governance
- Which draws inspiration from the literature, particularly within co-operative sector
- But which is bespoke to the credit union sector
- And which clarifies the distinct nature of governance – not as a higher tier of management

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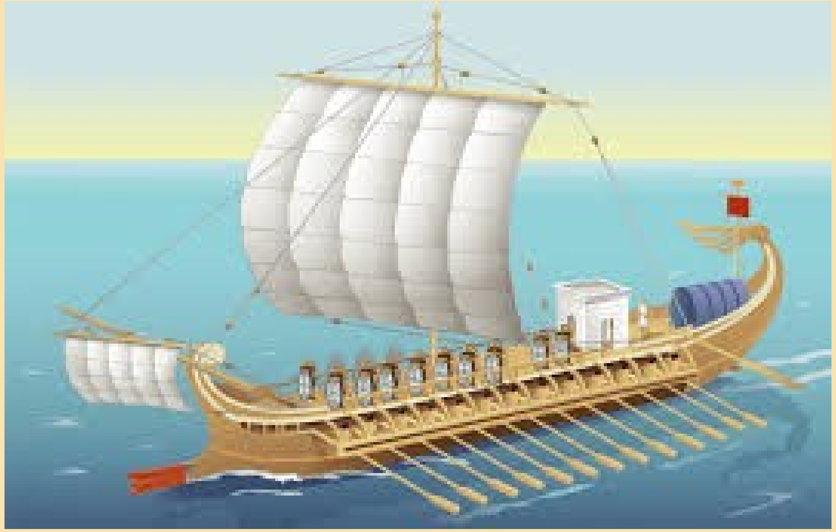
First principle of the governance system

- The clarity of distinction between:
  - The function of the board of directors
  - The function of management
- Gubernare
  - To pilot, to steer the ship



Why the study is important?

- *To ensure that the strength of credit union governance leads and ensures business growth and improvement*

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Key themes – action briefing papers

- *Strategic planning*
- *The role and responsibilities of a director*
- *Director recruitment and selection*
- *The role and responsibilities of the CEO*
- *The monitoring of performance on strategic objectives and effective use of management information*
- *Internal audit and the role of the supervisory committee*
- *Oversight of risk and compliance*
- *Accountability to the membership*
- *CEO recruitment, performance management and succession planning*
- *Delegations and escalations of authority*
- *The monitoring of performance of the CEO*
- *Board and director evaluation*
- *Board-management relations*
- *The functioning of sub-committees*
- *Board decision-making*
- *The development of board policy*

Key issues and findings to date

- *Great appetite from credit union boards of directors and CEOs for this project, both CUEP and non-CUEP, ABCUL and non-ABCUL*
- *Credit union boards are taking action on:*
  - *Clarifying director and CEO roles and responsibilities*
  - *Strengthening director recruitment arrangements and the role of the nominating committee.*
  - *Focusing on the centrality of strategic planning within the governance system*
  - *The monitoring of performance on strategic objectives and effective use of management information*
  - *Creating more robust internal audit arrangements (including the move from supervisory committee to internal audit committee of the board)*
  - *Considering the meaning and significance of a risk governance framework*
  - *Considering the accountability of the board to the membership*

Hot key topics for discussion today

- *Strategic planning and its role within a system of governance.*
- *Director recruitment and succession*
- *Relationship between the board and CEO – the issues of delegation and escalation*
- *Oversight of risk and compliance*

Strategic planning

- *Key questions*
  - *Why can we not talk about governance without first talking about strategic planning?*
  - *How does a good strategic plan get produced? Whose job is it?*
  - *What is the best way of monitoring progress?*
  - *Do all decisions refer back to the plan?*

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Strategic planning

- *Central to effective governance*
- *Regulators require a meaningful plan*
- *Board provides leadership, direction and oversight*
- *Plan sets out the long term goals and the measurable objectives*
- *No operational detail in plan*
- *A continuous, year-round activity, not just away days*
- *CEO provides market assessment, new initiative proposals and financial analysis*
- *Board tests, challenges and critiques CEO materials, and ensures plan conforms to values and purpose*
- *Board sets strategic direction, and agrees SMART objectives with CEO*
- *Plan objectives are basis of expectations of CEO*
- *Monitoring progress at every board meeting*
- *Needs a risk register*
- *Needs a financial plan*

Director recruitment and succession

- *Questions*
  - *Should there be a defined minimum skills and competency set for directors?*
  - *What is the effective use of a Nominating Committee?*
  - *Should there be term limits for directors?*
  - *Should there be external evaluation of board and director performance?*

Director recruitment and succession

- *Definition of the purpose of the board of directors.*
- *Definition of the size and the composition of the board.*
- *Identification of the skills and competences required of directors*
- *Identification of the specific competencies required to fulfil particular roles*
- *A system of director and board evaluation*
- *The introduction of term limits*
- *The effective use of a Search and Nominating Committee*
- *An agreed approach to co-options / observers*
- *A recruitment and succession action plan*
- *Transparent and clear election procedures*
- *A system of induction, training and development*

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Relationship between the board and CEO

- *Key questions*
  - *How do we define the specific function of the CEO?*
  - *How does a CEO know the extent of delegated authority? And when to escalate decision making?*
  - *What is the relationship between the chair and the CEO?*
  - *Should the chair and directors be involved in recruitment of staff other than the CEO?*

Relationship between the board and CEO

- *Strategic plan is the critical point of engagement btw directors and CEO*
- *CEO activities are all related to the delivery of the plan*
- *CEO has responsibility for implementation of the plan and all resources deployed*
- *Directors not involved in personnel matters unless relating to CEO*
- *Directors will restrict oversight of performance through the CEO*
- *Directors have connections with staff and volunteers, but respect the role of the CEO*
- *The chair has prime responsibility for liaison with the CEO outside board*
- *The chair will always act as the voice of the board*
- *The chair only has authority to take decisions where board has agreed*
- *The chair is available to support and guide the CEO*
- *The board meeting is where changes to strategic plan and policy can be made and decisions taken*
- *Only decisions of the board acting as a body are binding on the CEO*

Risk > strategy > culture

- *"The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems". UKGC 2014 section C*

- *"Good stewardship by the board should not inhibit sensible risk taking that is critical to growth. However, the assessment of risks as part of the normal business planning process should support better decision-taking, ensure that the board and management respond promptly to risks when they arise, and ensure that shareholders and other stakeholders are well informed about the principal risks and prospects of the company". FRC 2014*

- *"The board's responsibility for the organisation's culture is essential to the way in which risk is considered and addressed within the organisation and with external stakeholders". FRC 2014*

Overseeing risk

- *Key questions*
  - *How does a board identify the principal risks facing the credit union?*
  - *How does a board understand and define its appetite for risk?*
  - *How does a board ensure that it has effective oversight of the control and mitigation of risk?*

Oversight of risk

- *What is risk?*
- *The role of the board of directors*
- *A risk governance framework*
- *Risk appetite and risk tolerance*
- *Risk identification*
- *Risk assessment*
- *Risk response*
- *Control, tolerances and escalation*
- *Risk tolerances, compliance and technology*
- *Risk ownership*
- *Board monitoring and reporting*
- *The risk register*
- *Accountability and disclosure*
- *Internal audit and risk committees*
- *Board capability in risk governance*