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What should credit union directors focus on?

by Brian Hayes

JK Galbraith, credit union legislation and G20 corporate governance principles

JK Galbraith, the Canadian-born economist, once said that "*meetings are indispensable when you don't want to do anything*". Galbraith, as famous for his rapier wit as he was for his economic theories, was matched in wit (and possibly cynicism) by another 20th century economics giant, Thomas Sowell. Sowell said "*people who enjoy meetings should not be in charge of anything*". Most of us will be able to relate to the words of Galbraith and Sowell. If you attend enough meetings, the law of big numbers will mean you will endure a non-productive meeting at some stage. Dan Quayle, former US Vice President, referred to the feeling of being as relevant at a meeting as a "potted plant". However, meetings do serve a crucial purpose. The evolution of man from hunter gatherer into an agrarian society, is attributed to organisation, and meetings serve a key role in enabling humans to interact, co-ordinate and organise themselves to achieve a common purpose. The absence of meetings can lead to catastrophic outcomes even in the most elevated of contexts. On 11 December 1998 a two metre long unmanned space probe, the *Mars Climate Orbiter*, blasted off from Cape Canaveral in Florida. The probe was destined to travel to Mars and study its atmosphere. 286 days later, the probe suffered a "CFIT", a *Controlled Flight Into Terrain* i.e. it crashed into Mars. In the stomach-churning embarrassment of the post-mortem of what led to the NASA $125m mission to literally crash and burn, it emerged that one group of NASA scientists (those who built the probe) were speaking in one unit of measurement, and another group of NASA scientists (those who drove the probe remotely) were speaking in another unit of measurement, and the trajectory of the probe was simply wrong. In a credit union analogy, the member was talking in Euros but the credit union teller was talking in Japanese Yen. In the brutally self-critical reports conducted after the mission failure, one key recommendation emerged; a meeting would have gone a long way to avoid the miscommunication. Putting JK Galbraith to one side, meetings must happen on certain occasions.

Each month, thousands of Irish volunteers attend credit union board meetings. Meetings often consume significant time. Meetings occur at socially awkward times and, with the Irish climate, meetings require that volunteers often brave the elements on dark winter nights. Credit unions are volunteer run, and volunteer participation is absolutely essential to the ongoing sustainability of credit unions. It is therefore vital that volunteer board meetings are efficient. The next generation of board directors do not want to feel like potted plants, to use Vice President Quayle's soundbite. If they do, their interest is likely to quickly wane. Worse still, volunteer directors certainly do not want to preside over a *Controlled Flight Into Terrain*. The nightmare scenario would be to become involved in unwittingly directing a credit union into the choppy waters of instability. This draws into perspective, a very simple question; what should board directors be focused upon at monthly board meetings? Simple questions rarely have simple answers.

In contemplating this question, the first area of focus would be general contexts. Credit union directors are all *non-executive* directors. A non-executive director is a member of the board of directors of an organisation who does not form part of the management team. Non-executive directors act in an advisory capacity only. Typically, they attend monthly board meetings to offer the benefit of their advice. In broad governance principles there are two core types of governance structures; a *monist* model where by one group is responsible for an organisation, and, a *dualist* model where there is one group who manages the organisation, and one group who oversees. There is a half-way house where you have a little bit of both, referred to as the *Anglo Saxon* model, where some of management sit on Boards. Credit unions traditionally would have operated as an *Anglo Saxon* model prior to 2012. But post the 2012 Act, credit unions are now firmly in the *dualist* model camp. Board directors are non-executive, and are not involved in management. Credit union board directors should therefore meet once a month in a non-executive context.

So mindful of this non-executive context, what should directors do? What is their function? For this we need to look at the Credit Union Acts, and in particular Section 55. The Credit Union Acts now span over 200 pages, but the functions of the Board as contained in Section 55 only spans two pages. In total nineteen separate functions are spelt out. Summarising legislation is a perilous endeavour, and one must issue the standard caution; there is no substitute for reading the legislation in full. But below, we set out a summary in layman's terms of what each function involves:

Sector	Summary of function	Type
Section 55 (a)	Set the strategy	Strategy
Section 55 (b)	Monitor the strategy	Strategy
Section 55 (c)	Reassess the strategy	Strategy
Section 55 (d)	Make decisions	Structural
Section 55 (e)	Appoint management	Structural
Section 55 (f)	Ensure management are effective	Structural
Section 55 (g)	Review the manager	Structural
Section 55 (h)	Ensure all other staff are appraised	Structural
Section 55 (i)	Identify other key management roles	Structural
Section 55 (j)	Have a staff succession plan in place	Structural
Section 55 (k)	Oversee management execution of strategies	Structural
Section 55 (l)	Review and approve the risk management system	Risk
Section 55 (m)	Ensure the credit union is compliant	Risk
Section 55 (n)	Remove officers	Structural
Section 55 (o)	Approve policies	Structural
Section 55 (p)	Recommend a dividend	Finance
Section 55 (q)	Present accounts for audit	Finance
Section 55 (r)	Report to the members at the AGM	Finance
Section 55 (s)	Review monthly accounts	Finance

It is worthwhile to reflect on the above nineteen functions. A large number of the nineteen functions relate to structural matters; primarily staffing and policy matters. This would appear quite intuitive. If you want to oversee an organisation but not be involved in operating it, you need people to run the organisation (staff) and these people need to know what to do (policies and procedures). These infrastructural elements are event-based, and unlikely to arise as an issue at each monthly board meeting. Once you have staff and policies in place, issues arise by exception, rather than at once a month. Beyond that, the remaining nine functions are especially important as they tend to be fluid, dynamic and recurring. These functions fall into three distinct categories:

- Strategy
- Risk
- Finance

These functions are equally intuitive; if you are overseeing an organisation, you want to know where you are headed (strategy), what can go wrong (risk) and do you have enough money to survive (finance). And this is at the core of the functions of the Board. Boards need to focus on strategy, risk and finance. This is what one could argue Section 55 ultimately reduces down to.

Stepping outside the world of Irish credit unions, broader reference points can be identified and studied. The *Code of Practice for the Governance of State Bodies* is issued by the Irish Department of Public Expenditure and Reform and this sets out broad principles of what the Board of a State Body should do. A key extract sets out the function of the Board as follows: "*The Board should fulfil key functions, including: reviewing and guiding strategic direction and major plans of action, risk management policies and procedures, annual budgets and business plans, setting performance objectives, monitoring implementation and State body performance, and overseeing major capital expenditure and investment decisions*". This Code is in turn built on principles contained in the *G20/ OECD Principles of Corporate Governance*. The *G20/ OECD Principles* are a global industry-wide benchmark of best practice. On the matter of board functions, the *G20/ OECD Principles* characterise the functions of the Board in language that is very close to the Department of Public Expenditure and Reform as follows: "*…reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures…*". Following this, the reduction of Section 55 of the Credit Union Acts into three key areas of focus would appear well-grounded, and in line with global best practice. Strategy, risk and finance are at the heart of what Boards should be focused on in wider contexts.

So where does this leave Irish credit union Board directors? Board meetings must be in perspective. They must be geared to enable Boards to fulfil their role under Section 55, and therefore, they must, of necessity, be weighted to matters of strategy, risk and finance. And the key inflection point to enable this to happen are the tools that shape the board meeting before the meeting even begins: the board agenda and critically, the board pack. The board pack should chime with the overarching focus of strategy, risk and finance. Boards should not be burdened with an excessive amount of operational detail. Micro-detail leads to micro-management and micro-management will not lead to improved strategic, risk or financial leadership. If anything, it will weaken the Board's strategic focus. Boards should be equipped before a board meeting with strategic, risk and financial information that is relevant, integrated, in perspective, timely, reliable and comparable. This creates the environment where focus is placed on the right things. Not just in line with Section 55 of the Credit Union Acts, but also in line with broader OECD/ G20 global principles of best practice. Anything short of this and the ghost of JK Galbraith may be whispering in the boardrooms of Irish credit unions. However, if this focus is embraced, it will position credit union boards to adopt a truly non-executive role. And this would be positive for both the future sustainability of Irish credit unions but also for the sustainability of the distinguished Irish tradition of volunteerism that drives civic minded people to serve a greater purpose on those dark winter nights.

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