

# **Credit Union Board Governance: An Overview**

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## Introduction

Welcome to the course on Credit Union Board Governance, an Overview.

Effective governance by a board of directors is instrumental to the success of a credit union. In this course, we'll take a look at the various types of boards that exist and explain why a governing board works best for credit unions. We'll discuss how a governing board operates, what makes it effective, and how it works "outside the box." We'll also examine the phases involved in effective board governance.

### Objectives

The objectives for this course are to:

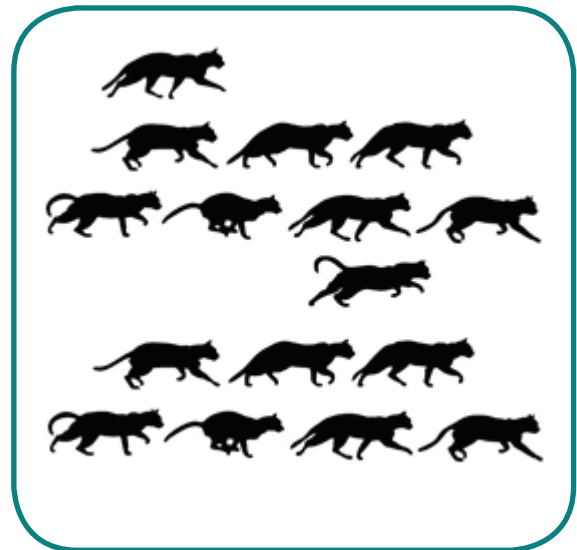
- Explain the role of a board;
- Explore five varieties of boards and how they function;
- Identify components of the governance process; and
- Describe how a board governs effectively.

## What Has Been Said of Boards

Being an effective board is very difficult because there is no hierarchy. No one in the organization can tell anybody on that board of directors truly what to do because you're all peers, you're all equals.

Here's what three of the most well-known experts about boards of directors have said about boards.

- Richard Chait: "Effective governance by a board is a relatively rare and unnatural act."
- Peter Drucker: "There is one thing all boards have in common. They do not function."
- John Carver: "Boards tend to be incompetent groups of competent individuals."



Why would these three people who work with boards of directors of all sizes and of all types have such an odd view of boards of directors? Because by their very nature, boards are difficult. There is no hierarchy. It's like herding cats. Therefore, to make a board effective it requires a lot of focus. It requires a clear process and it requires a lot of self-evaluation and self-discipline.

## What is a Board?

According to John Carver, "A board is a group of peers working on behalf of the member owners ensuring that the business achieves what it should and avoids unacceptable situations and actions."

- What is meant by a group of peers? It's a group that has to, by choice, work together. All of the desires to accomplish things and to be effective must happen by a conscious choice of the board members.
- There is no hierarchy. Members of the board have roles that are different but nobody is in charge of the board. There is a chair, a vice chair, a treasurer, and a secretary, but all of these people are just peers with the other board members. Nobody can punish a board member or remove a board member by themselves. So they are a group of peers, a group of equals, and they don't work on their own behalf, especially not in a non-profit organization like a credit union.
- They work on behalf of the MEMBERS who also happen to be the owners. The owners are the

ones who have elected the board of directors, so the board is working to meet the needs of the owners who have elected them. The owners—or members—are also the customers who use credit union products and services.

## What Should a Board Achieve?

The board has to define what the credit union should achieve:

- The **board decides what the achievements should be** because regulation does not do this, and members do not do this. Members are too widespread in their needs and desires to set this direction.
- The **board ensures achievement through a visioning process, and by creating a mission and a strategic plan.** This involves deciding what is in the best interests of the members and what the organization can do to meet member needs. The board also provides the resources to accomplish these goals.
- And in doing so, **the board has to have some limitations.** Limitations are those unacceptable situations and actions that must be avoided. For example, credit union boards won't break laws. They won't go outside of their policies, and they won't break the credit union's bylaws. Boards do things that are of value and importance to the membership and avoid things that would harm the organization or are outside of norms, values, and laws.