

Could Boards Become the Weak Link?

Recent television images of corporate CEOs in handcuffs or executives taking the Fifth Amendment at congressional inquiries beg the question: What's the board's responsibility as allegations against these corporations mount?

Could credit union boards be the weak link in the future success of their credit unions if they don't fulfill their responsibilities? Is it possible they already are?

American corporations are facing their most significant crisis since the Great Depression. Consumer confidence in major corporations is reaching an all-time low. It's a crisis of credibility. And by all accounts, the wound is self-inflicted.

What does this mean to your board and credit union?

Credit unions have successfully provided a cooperative alternative to for-profit financial services providers. That success has resulted in the highest level of consumer trust around.

Trust is the primary capital of credibility and success in today's volatile and confusing marketplace. Ask any CEO of any financial services provider about the "balance sheet value" of consumer trust. Its return on investment has grown exponentially with the demise of Enron, the implosion of Arthur Andersen, and the recent revelations at Tyco and WorldCom.

Surveys by the *American Banker* newspaper repeatedly quantify consumers' beliefs, or trust, that credit unions act in their best interests. It's obvious why consumers have lost trust in corporate America. What's important to credit unions is why they have retained consumers' trust.

Credit unions are the only financial services provider "structured" for consumer, or member, trust. Consumers embrace the concept of a volunteer, noncompensated board elected by members (with one vote per member) that speaks directly for the members, as opposed to a board representing shareholders who vote

according to the amount of stock they own.

Now, back to the weak link potential. The risk is in credit union boards operating at one of two extremes: either rubber-stamping every management initiative or decision, or micro-managing credit union operations. And neither is the strongest way to govern.

It's true that credit union operations are significantly more complex today than they were in the past. Increased competition, online services, heightened consumer expectations, and field-of-membership expansions require executives to extend their knowledge and vigilance in marketplace trends and managerial skills. It's a time-consuming task that requires their full attention. You're probably well aware that it's not easy for a volunteer board to keep up to speed.

All boards, including volunteer boards, will be under heightened scrutiny in this post-Enron world. So, how can you continue to perform your role as member advocates; keep members' trust; and find, support, and evaluate management with the requisite expertise to manage your complex credit union?

The answer lies in the information you receive, how well you understand it, and how well you use it. Currently, boards receive two external sets of performance information:

1. Your audit report. Most credit unions hire an audit firm to review their credit union's balance sheet. This report is available to both the board and supervisory committee members. While recent revelations at Enron and WorldCom cast some doubt on the reliability of auditors' reports, the vast majority of them are reliable. But that's also why every board member should question its credit union relationships with your auditor beyond contracted audit work. Consider, for example, any consulting contracts, technology reviews, or executive placement

agreements.

2. Your regulator. The National Credit Union Administration (NCUA) and state regulatory agencies have a significant impact on the rules, regulations, and information boards receive. With each exam, NCUA issues a CAMEL* rating to provide a conservative, financial scorecard of your credit union's health and performance. It's conservative because the regulator tends to favor the most risk-averse approach to organizational strategy. You can understand why. The agency has more to lose from a credit union's failure than it has to gain from its success.

But your board needs even more information, so you turn to management. Your management team understands the need for fiscally sound practices, but it also must respond with products and services to meet members' needs. These new products and services might have a different risk and earning potential.

Directors need to understand the bottom-line impact of such products and services and also be aware of members' perceptions of service quality, the credit union's overall effectiveness, and staff morale. This is best accomplished by developing and implementing a "balanced scorecard."

Consistent with the teachings of governance expert John Carver, the scorecard should be structured to measure "ends" rather than debating "means." And it should reflect the impact of member satisfaction, financial performance, staff development, and organizational effectiveness on your credit union's strategic vision and values.

Next month, we'll examine how your board can strengthen its effectiveness using a balanced scorecard. ■

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