

# **A Board Governance Approach: What to do When Things Go Wrong**



Credit Union National Association

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## Governance Introduction

**Definition:** Governance means that the board of directors is there to ensure that the credit union achieves its desired ends, which presupposes:

1. That the board has established some desired ends through a strategic planning process
2. That the board has some kind of system in which to measure whether or not management is helping to achieve those desired ends
3. That management has some kind of system in place to hold management accountable for achievement of those ends.

These are an important part of modern progressive governance.

In modern progressive governance the board has its hands off of operations. It's in a governing role, not in an operating role. Leaving operations to management and not overstepping those boundaries. But there are times when things are not going right, when things are going wrong at the credit union, where that line between governance and operations become somewhat blurred and the board of directors may have to overstep its traditional boundaries and go in to operations to some degree, but it's important for the board to be able to discern when it's important to make that step over that boundary



and when not to.

It is also important that when the board feels it is necessary to step into operations, they step into operations in a measured degree for a limited period of time.

## Overview

- **Governance**—what modern, progressive governance is.
- **Failing Grades**—that the regulators or the internal or external auditors have given you some feedback in their findings that something with the credit union is distinctly wrong.
- **Into the Abyss**— when the credit union is experiencing declining capital or low profit or no profit, turning to loss for the year or for a period of time, both potentially serious problems.
- **Driving Blind**— where the credit union is not engaged in:
  - A good strategic planning process; or
  - In a strategic planning process at all; or
  - Is not engaged in a healthy asset liability management process; or
  - No asset liability management process at all.

- **Missing the Mark**—a strategic plan is in place, but that the credit union has failed in a significant way to achieve the desired results of that strategic plan, such that the failure to achieve is so significant that it becomes a threat to the credit union.
- **Treadmill**—the credit union has high, very costly employee turnover, a significant market disadvantage that the board may need to step into and help alleviate.
- **“Downward Growth”**—or declining membership, where the membership of the credit union is no longer growing, but declining to such a degree that it threatens the long term viability of the credit union.

## Governance: Working Outside the Box

The idea is that the board of directors creates a box in which management can function freely. Within the box are the operations of the credit union and those operations of the credit union should be at the control of the CEO, that all the decisions major and minor that occur within the parameters allowed by the board of directors are made by the CEO and the CEO does not have to go to the board of directors to get permission, to get guidance, et cetera.

Makeup of the box is through the strategic planning process including:

- Vision
- Mission
- Values
- Plans
- Goals
- Policies (board and management)

### Feedback for the Board

Controls on the parameters set for management:

- External Audit
- Internal Audit
- Regulatory Exam
- Monthly Reports

Sources of information for the board:

- Member surveys
- Staff surveys
- Mystery shoppers
- Fraud Hotlines

### Alarms

If something is going wrong, those reporting systems should sound the alarm.

And it's important for the board to pay attention, as there may be times when it becomes important for the board of directors to step into operations in a measured degree for limited period of time.