The Role and Level of Involvement of Credit Union Directors in Strategic Management: A Research Agenda

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Credit unions are a growing and important part of the global financial system. The history of the credit union movement is summarized and the characteristics making credit unions different from banks are presented. Boards of directors of these organizations are also different and need to be better understood, particularly given the state of the financial services industry worldwide. The research is reviewed on board member involvement generally and on credit unions in particular. Some of the research opportunities proposed herein include: differences between credit union boards and for profit boards; board member background and competence; board involvement in planning and environmental scanning relative to credit union performance; and board involvement and orientation toward social responsibility and ethics. Scholarly investigation of the topics presented would improve understanding of these boards and suggest ways to enhance their effectiveness.

Credit Union Movement

History

A credit union today is a cooperative form of business which provides financial services and products as would a traditional bank. Various kinds of cooperatives first developed in Western Europe in the early nineteenth century. These developments were in response to the changing economic system, particularly the decline of feudalism, and related societal changes. As the industrial revolution took hold in towns and villages, the protections that the guild system offered from competition began to diminish with the advent of factory produced goods. In response to these changes and pressures farmers, shopkeepers, skilled craftsmen, and small producers began to engage in cooperative economic endeavors and organizations (Moody & Fite, 1984).

To fill borrowers' needs, money lenders and banking have been in existence since ancient times. The first practical people's bank or cooperative credit society or loan union, as they were variously called, was created in Germany by Herman Schulze–Delitzsck. Loans were made for business rather than consumer purposes, and were made on the basis of the person's character rather than their collateral. The other prominent figure in the peoples' bank movement was Friedrick Wilhem Raaffeisen. He created people's banks for farmers to help them buy seed, livestock, farm machinery, and land. (Moody & Fite, 1984). By the 1880's these cooperative credit societies had spread throughout Europe.

The credit union movement was begun in the U.S. by Edward Albert Filene, a Boston Massachusetts department store owner. In 1909 the first state law defining and enabling credit unions was passed in New Hampshire and the second, with Filene's support, was passed nine days later in Massachusetts. Each U.S. state by 1910 had its first credit union (Moody & Fite, 1984). Filene also founded a credit union and later an agency which would go on to support the entire credit union movement.

By 1932 there were 1700 credit unions and most states had passed enabling legislation for state chartered credit unions. The Federal Credit Union Act was enacted in 1934 which would allow for federally charted credit unions. Later that year the Credit Union National Association (CUNA) was established to support credit unions and promote the movement in the U.S. as their umbrella trade association. In 1970 the World Council of Credit Unions (WOCCU) was formed to provide guidance and support to credit unions around the globe.

Global Scope

The WOCCU is the global trade and development association for credit unions which promotes the creation and sustainability of credit unions worldwide. The mission is to improve people's lives through access to high quality and affordable financial services. It advocates for the global credit union system before international organizations and national governments for enabling legislation and protective regulation. Technical assistance programs exist to provide techniques and technology to enhance credit unions' financial performance, management, and outreach. The WOCCU is made up of three units and is financed by grants from various governments, foundations, member dues, and gifts.

The Development Agency unit of the WOCCU assists credit unions and their member associations to: better access the underserved, support communities at risk, and encourage appropriate legislation and regulation. Another unit, the Worldwide Foundation for Credit Unions is involved in assisting credit unions and their members after disasters and encourages innovation in the international credit union system. Finally, the Trade Association has a membership of 46,000 credit unions in 97 countries which serve 172 million credit union members. The credit associations within countries are also affiliated with the WOCCU. Selected examples of these associations include the: Kenya Union of Savings & Credit Co-operatives; Credit Union Association Uzbekistan; Association of British Credit Unions; National Association of Co-operative Savings & Credit Unions (Poland); Russian Credit Union League; Confederacao Interestadual das Cooperative Ligadas ao Sicredi (Brazil); Abacus-Austalian Mutuals; Credit Union Central of Canada; and Credit Union National Association (U.S.) (WOCCU, 2009a).

Elements of the international credit union system, which includes WOCCU members and non-members exist in 97 countries with 53,685 credit unions which served 185,853,899 individual members in 2008. Worldwide in 2008 savings in credit unions totaled US$ 995.8 billion. Loans were US$ 847.1 billion, with reserves of US$ 115.3 billion, and there were assets of US$ 1.19 trillion (WOCCU, 2009b).

Credit Unions as Financial Institutions

Credit unions are different in many important aspects from banks and depository institutions. First and foremost, a credit union is a business owned and controlled by its member patrons, and operated for them and by them on a non-profit or cost basis. It is a cooperative owned by the people who use it to provide themselves with services and benefits rather than to earn profits for the shareholders as investors (Cahill, 1984; Schoars, 1971).

These characteristics of non-profit, service, democratic control, and social responsibility are the operating principles of credit unions today. Those who use credit unions (CU) are not customers as with a traditional bank, rather one becomes a member usually by making a small deposit which purchases at least one share. CUs offer a full range of financial products and services including checking and savings accounts, IRAs, CDs, ATMs, credit cards, mortgages, automobile loans, Christmas Clubs, college savings and personal loans. These services are typically offered at a lower cost than for-profit financial institutions. The objective or philosophy is to serve the members' financial services needs rather than provide a return on invested capital for stockholders as do traditional banks. Often CUs are involved in charitable and socially responsible activities in their communities.

Beyond the basic difference in the purpose of a CU to provide service rather than profit, ownership and governance is fundamentally different from other financial institutions. The members are the owners and the control is democratically based on a one member one vote basis. The members elect a board of directors from among the membership (Hautaluoma et al., 1993). The boards of directors also serve without pay, whereas bank boards are compensated. The CU board in turn hires and directs a CEO who manages the day to day operation.

Today in the U.S. there are about 9,000 credit unions, 3,600 of which are state-chartered and 5,400 of which are federal credit unions (Credit Union National Association, 2006). They hold approximately $700 billion in assets. In comparison, there are 8,800 banks, savings and loans, and savings banks, holding $10.9 trillion in assets. Several banks, individually, have assets that exceed the total combined assets of all credit unions. Nevertheless, with over 80 million members, credit unions are important competitors in the market for consumer loans and deposits. Their assets have steadily grown from $217 billion to $655 billion between 1990 and 2004.

Board Involvement

In spite of these impressive growth rates, a number of writers have expressed great concern regarding credit union governance. Of particular interest is the extent of board involvement in the strategic management of these institutions. There is general agreement among organizational researchers, governance experts, and business executives that, traditionally, boards across all industries have engaged in the strategic process only to the extent that they legitimized proposals from corporate executives (Iacocca, 1984; Shanklin & Ryans, 1981). However, in recent years, the extent to which board members are involved in the corporate strategic decision making process has become of major concern. To date, the board's multiple roles and duties have been the most studied aspect among all board investigations. These studies, shown in Table 1, identified several major responsibilities that capture directors' most significant functions.

Table 1. Responsibilities of Boards of Directors

Author(s)	Year	Responsibilities
Pfeffer & Salancik	1978	Advice and counsel Oversight and control.
Ong & Lee	2000	Monitoring the actions of executives on behalf of shareholders
Hillman & Dalziel	2003	Providing input, resources, and advice in formulating strategies
Johnson & others	1996	Establishing links with stakeholders Participating in strategic planning
Boulton	1978	Reviewing overall board role and responsibilities Reviewing operating variances and problem areas Reviewing objectives and setting standards of performance Reviewing business structure Evaluating strategic and operating plans Reviewing standards for compensation and rewarding performance Ensuring the organization's human resource development Reviewing external trends Setting policies for corporate action

Table 2. Board Participation in Strategic Decisions

Author(s)	Year	Findings
A. Studies Showing Minimal Board Participation		
Whisler	1984	"Rules of the game" is to minimize participation in setting strategy
Mace	1986	Boards do not participate in strategic decisions unless faced with a crisis
Patton & Baker	1987	Members are reluctant to "rock the boat" and get involved
Lorsch	1989	Directors want to increase their involvement but are reluctant to do so.
Judge & Zeithaml	1992	The great majority of boards are not actively working with management to develop strategic action.
Daily & Dalton	1995	Norms of reciprocity: Board appointments confer prestige and status, financial rewards and various perquisites. Members feel socially obligated to support the CEO and minimize any meaningful participation
Wall Street Journal	1996	Social ties between top managers and outside directors tend to be be "chummy" or even "collusive" thus diminishing board effectiveness
B. Studies Showing Active Board Participation		
Worthy & Neuschel	1984	A major increase has taken place in the duties, power, and responsibilities of corporate boards
Westphal	1999	Social ties between the CEO and the board encourage collaboration between top managers and outside directors in strategic decision making
Heidrick & Struggles	1990	Board members are increasingly involved in determining and monitoring the strategic directions of the organization.
Dobrzynski	1989	"Quietly, many boards are asserting themselves - redirecting strategy here, vetoing an investment there" (p. 66).

There is ample empirical evidence from organizations of many different kinds that there are levels of board involvement, which can be represented as continua (McNulty & Pettigrew, 1999; Zahra & Pearce, 1989). One particularly useful framework for evaluating the role of the board of directors in corporate strategic management was developed by Wheelen and Hunger (2008).

A board can be characterized as being at a specific point on a continuum depending upon its degree of involvement in strategic affairs. Accordingly, "boards can range from phantom boards with no real involvement to catalyst boards with a very high degree of involvement" (Wheelen & Hunger, 2008, p. 28). A sizable amount of study has been devoted to board involvement. Unfortunately, when viewed as a whole, the results are mixed and inconclusive, thus limiting the number of definitive conclusions that can be drawn. As presented in Table 2, some have found that executives are resisting increased board involvement in the strategic process. Other evidence suggests that board members are reacting to various external pressures with active participation.

Credit Union Directors

A number of writers have focused their efforts on the boards of credit unions and their role in strategic management. Not surprisingly, there is general agreement among them that, in a credit union as in any other business, strategic management is a significant contributor to high performance. James McComb reflects this view. He asserts that "more than just a concept or a theory, strategic management converts planning into progress" (2001, p. 24).

In this area as in many others the board's role is of paramount importance. Unfortunately, there is evidence that strategic management has not been of major concern to many directors of credit unions. However, "Strategic thinking should be part of every credit union board's behavior (*Strategic Thinking Challenges,* 2006, p. 15). Well-informed and active directors are critical to the continuing success of credit unions. Indeed, one CFO of a credit union states unequivocally that "The credit union only can be as good as its board" (*Anatomy of a Merger,* 2007, p. 12). A credit union CEO specifically states that "directors should define strategic goals and objectives" (Brown, 2007, p. 12). An effective board "must ask the tough (strategic) questions and hold the CEO responsible and act as a sounding board for management. When it's not doing so, the governance team is out of balance" (G*ilpatrick, 2007, p. 35).* Another writer expresses his disappointment that even when strategic plans are formulated, they are rarely implemented. McComb (2001) contends that "The credit union industry is awash in strategic plans. Far too many of these thick binders with pretty covers sit on shelves and gather dust. And far too many credit union executives ... resent the fact that planning 'takes so much time and gives back so little."' Even having a long-term plan is only a small part of the solution. "What ultimately determines an organization's long-term success is not simply the plan but how well it is implemented (McClelland, 1998). Therefore, there is a strong argument that CU boards especially should be knowledgeable and involved given the different nature of the organization (help for the underserved) and the boards various simultaneous roles as customer, owner (member), and a direct part of management.

Practitioners have specifically discussed the importance of several strategic matters and expressed great concern for the minimal interest or lack of involvement of credit union directors. They suggest that credit union boards pay particular attention to the following eleven dimensions. A thorough scholarly investigation of these topics would improve our understanding of these boards and suggest ways to improve their effectiveness.

Member competence:

There is a vital need for competent and knowledgeable board members. Umholtz (2001) argues that "many credit union CEOs clearly are uncomfortable discussing the subject because of their doubts about their own credit union board... Instead of calling their own boards atrophied and incompetent, many CEOs instead say today's credit unions require a 'new breed' of directors. They're right" (p. 28). The board chair of a large credit union explains that "The whole dynamic of being a credit union board member is changing... In the past, you could be happy to sit on the board and go on the trips. It's a lot more than that today. You have to bring skills and abilities to the table to be part of a high-performing board" (Molvig, 2007, p. 52).

Follow-up and implementation:

While it is evident that minutes of directors' meetings should be recorded and clearly state board decisions requiring implementation, in many credit unions board meeting minutes typically are drafted, reviewed, adopted, and forgotten (Pippett, 2008). There is an absence of accountability because the board neglects to follow-up and ensure that board decisions are implemented.

Orientation of new members:

It is essential that new board members quickly become contributing and effective participants in the work of the board. Therefore, "each board needs to consider whether its board member orientation is sufficient and effective. To become an effective board member... the new person needs to learn about the organization as well as about the board" (Board Orientation Basics, 2006, p. 66).

Training:

A successful credit union must invest heavily in board education. According to one expert, "One of the key issues on a nonprofit board is that you are really committed to the mission of the organization. Part of that commitment means a willingness to seek out some training, attend conferences and improve your skills" (Courter, 2006, p. 63).

Poor training of new board and committee members also sparks discord and warring factions within a board. The CEO's responsibility is this area is to train and counsel new members: "Encouraging open and honest communication among board members, even when conflicting opinions exist, often helps solve issues and fosters trust" (Merrick, 1991, p. 30). Training sessions that address emerging issues impacting future strategic policy are provided by many state and national credit union associations.

A credit union CEO proposes that "there should be some minimum board training. Watch training videos... Have your attorney come in and speak to the board about bankruptcy laws and director liability. Have your CPA come in and speak to the board ... about financial trends in the CU industry and about reading financial statements. Basically, use third parties to emphasize that this is a serious and complex business for serious individuals, especially in the boardroom." (Storey, 2006, p. 23).

Groupthink:

Insulation of the group from outside sources of information is a major contributor to groupthink - the lack of meaningful and probing discussion of issues and consideration of alternatives. To prevent groupthink and promote judicious decisions, the board should adopt a culture of inquiry, share and discuss ideas, raise questions, and explore different courses of action. Groupthink is a "common situation when the staff controls nearly all information flowing to the board" (*Avoiding Groupthink is a Good Thing,* 2007, p. 16).

Succession planning:

Some writers emphasize that planning for future leadership is another important board activity. The lack of succession plans is a pervasive problem. It is due to the inability or unwillingness of credit union executives and boards to address this issue. They may want to avoid exploring succession options because they wish to forestall difficult and sensitive discussions. "Many boards devote countless hours to recruiting and hiring when searching for a new CEO but have no succession plan. Likewise, some CEOs scramble to fill key roles on short notice. A succession plan is invaluable in these circumstances" (Saul, 2007, p. 66). Succession plans establish the means by which qualified individuals are prepared to occupy certain critical positions with minor disruption. They involve "envisioning a credit union's future beyond the tenure of current managers and a concerted effort to identify and cultivate future leadership talent" (Saul, 2007, p. 66).

A recently retired credit union CEO argues that "The key is not to wait...A succession plan is a necessity for every board, not just for retirement, but for replacement of the CEO for any reason. Procedures should be set for the board members to follow, so they're not scrambling around, wondering what to do" (Molvig, 2001, p. 5).

Assessment of board performance:

This is an objective tool measuring board performance against best practices. The impetus for such an evaluation should come from the board. A strong board chair makes the process as impersonal as possible and emphasizes the benefits to the CU (Molvig, 2007).

Governance consultants urge boards to decisively address awkward matters including communication barriers such as personality conflicts, dysfunctional politeness and discourteous members. The process of conducting regular board and CEO assessments and self-assessments can guide the governance teams to find and resolve problems before they become totally dysfunctional (Gilpatrick, 2007).

Executive compensation:

Credit unions have rewarded their executive teams with steady compensation increases since the turn of the century, with little apparent change in the criteria for incentive and bonus pay determinations (Bankston, 2007). Today many boards are reluctant to design new plans for executive benefits. However, credit unions must compete with for-profit organizations for executive talent. For-profit businesses can offer compensation packages that include stock options, bonuses, golden parachutes, and other powerful incentives and perks. "To compete, credit unions must find creative solutions to attracting and retaining talented executives. Toward this end, credit unions "must accurately assess the market value of their executive positions" (Yancey, 1999, p. 14).

Boards need to re-examine the way they make compensation decisions, with more emphasis on objective performance measurements (Bankston, 2007). A survey of more than 400 credit unions found that those "without executive incentive plans because the board didn't want one or because the issue was never examined tended to experience lower financial performance (Yancey, 1999). Doukas (1998) urges the boards of directors to appoint a compensation committee to perform the program's initial review and analysis, and provide final recommendations to the full board.

Code of Ethics:

A former credit union CEO asserts that "As with other risks, the board should establish broad policy, in this case developing a code of ethics that is ... adhered to organization wide" (Gilpatrick, 2007, p. 31). The board should reexamine its code of ethics every year and update it if necessary.

In many organizations, codes of ethics are principally public relations statements. Their effectiveness depends heavily on whether they are current and robust and on how employees who break the codes are treated. Most importantly, they require top management's and the board's unequivocal support.

Efficacy of board meetings:

The attitude of some credit union CEOs toward board meetings is one of anxiety and apprehension. Some believe "board meetings are counterproductive, frustrating experiences that rarely result in any progress" (Storey, 2006, p. 23). Some board members may have their own hidden agendas, insist on a certain course of action in spite of wide opposition, or attempt to micromanage the credit union. The solution is for the CEO to discuss this matter with the chair of the board and for the entire board to require these individuals to change their behavior or to resign from the board.

Risk management:

A central role of boards of directors is strategic risk management. They should establish and enforce policies that mitigate the risks of mismanagement, fraudulent behavior, or unforeseen circumstances; examine and assess management' performance; monitor lending activities; and safeguard the credit union's reputation (Gilpatrick, 2007). For these reasons, some writers and practitioners advocate the establishment of a risk management policy. It would require the board to evaluate fully the credit union's investment and lending policies in their entirety. This high degree of monitoring of lending activity helps keep risk at an acceptable level (Pactwa, 2006).

Agenda for Future Research

Given the current crisis in financial institutions and markets it is vital to understand the underlying operation of all aspects of our financial system. An important and growing part of that system is the credit union. The very different nature of credit union ownership and management requires an understanding of the unique managerial and operational issues which affect the health and future of these organizations. The foregoing eleven dimensions, as well as answers to many related questions which are unique to these organizations, should have the attention of CU boards and need careful investigation. To date, practitioners who have addressed these matters have provided many important insights; however, significant gaps in the academic literature remain. These shortcomings are an indication of the many research challenges and opportunities that await scholars interested in credit unions. Thus important extensions of these research streams would be fruitful endeavors. To that end, the following important questions are among those that need to be addressed in future studies:

1. The role and level of involvement of credit union board members:
   - 1.1 What is the role of CU boards?
   - 1.2 To what extent are CU board members involved in strategic management?
   - 1.3 What factors determine the extent of board involvement in strategic management?
   - 1.4 What is the composition (demographics) of CU boards?
   - 1.5 Do these boards seem to possess the education and expertise to fulfill their responsibilities?
   - 1.6 What is the level of involvement of CU boards in strategic issues versus operational issues?
   - 1.7 To what extent are board members involved in executive compensation decisions?
   - 1.8 Why do some CU boards have succession plans and others do not?
   - 1.9 What are credit union's policies and practices regarding board member recruitment, orientation, and training? How can these be improved upon?
   - 1.10 How alert are board members to the danger of groupthink during board deliberations and decision making?
2. Differences between CU board members and those of other financial institutions:
   - 2.1 What is the role of the boards of directors in both types of financial institutions?
   - 2.2 To what extent do the strategic management practices and processes of CU boards differ from those of other financial institutions? Such research would disclose variables that separate the two groups.
   - 2.3 Compared to other financial institutions, what factors determine the extent of board involvement in the strategic management of credit unions?
   - 2.4 Does the composition (demographics) of CU boards differ from that of other financial institutions?

   2.5 Are there differences between the two groups with respect to the education and expertise of their board members?
   2.6 What is the impact of factors that differentiate between the two groups on firm performance?
3. Planning and performance:
   3.1 What is the relationship between CU directors' level of involvement in planning and credit union performance?
   3.2 How can a board of directors create competitive advantage and provide strategic value?
   3.3 What is the relationship between the degree of sophistication of the board's planning process and performance?
   3.4 Is the performance of CU boards categorized as planners different from that of non-planners?
   3.5 Is there a relationship between board composition and CU performance?
   3.6 What is the relationship between board processes, small group dynamics, and organizational effectiveness?
   3.7 Where do boards typically stand on the ongoing internal conflict between the credit union movement's philosophy of meeting members needs versus the need for profitability as in the banking philosophy?
   3.8 How do CUs and other financial institutions differ with respect to their planning horizons?
   3.9 More broadly, do CUs perform better than other financial institutions?
4. Environmental scanning:
   4.1 What types of scanning activities are conducted by CUs and their boards?
   4.2 What types of information are the most useful? What are the sources of this information?
   4.3 What is the relationship between these CUs' scanning activities (and their level of sophistication) and their performance?
5. Leadership:
   5.1 Are certain forms of leadership and governance more suited to CUs?
   5.2 Should a CU's CEO chair its board of directors?
6. Social Responsibilities:
   6.1 How do CUs differ with respect to their codes of ethics?
   6.2 What are the attitudes of CU board members toward social responsibility?
   6.3 How do CUs differ from other financial institutions with regard to social responsibility?
7. Financial management:
   7.1 How sophisticated are CU board members regarding the methods of financial management?
   7.2 How risk-averse are CU boards?

Conclusion

In summary, there are many interesting future research opportunities for management scholars and practitioners. Researchers, business practitioners, and policy makers should focus their attention on the needs and challenges facing credit unions and their boards. The entry of scholars from various disciplines such as finance, economics, and organizational behavior into this field can enrich the quality of future research. This will expand and refine our understanding of what makes credit unions effective and profitable and, in turn, assist practicing managers to make better operational and strategic decisions.

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