



DARE TO COMPARE | a three-part series

2 | Great Governance in U.S. Credit Unions

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DARE TO COMPARE

In their journey to find, understand, and apply enhanced governance practices, great boards explore how other boards do their work and adapt those insights to improve their performance. Great boards can dare to compare their board behaviors and systems to those in the work of three types of boards: Canadian Hospitals, U.S. Credit Unions, and U.K. Hospitals.

In this journey to continuously innovate and improve, we believe there are three questions Great Boards should answer:

1. How do we compare?
2. What can we learn?
3. How should we innovate?

To help stimulate conversations in the Boardrooms of U.S. hospitals, we offer the three part series, “Dare to Compare” as a resource for boards to master the art and science of governance innovation.

We hope the three short papers encourage your leadership to break through complacency and journey into the domain of high performance governance.

The Dare to Compare Series offers these three papers:

1. Great Governane in Canadian Hospitals
2. Great Governance in U.S. Credit Union
3. Great Governance in UK Hosptials

Each paper begins with a standard preface on the nature and value of governance innovation; and ends with three practical actions to adapt insights from the comparison board’s work into improvement for your Board’s work. Provocative ideas on innvoation are found in *The Medici Effect*.¹

INNOVATE

Great boards are not complacent. They strive to continuously improve the clarity and professionalism of their strategies, structures, decision making processes, principles, and practices.

They compare their current performance against stretch objectives, and are hungry for better ways to create the conditions in which those who deliver and manage health services can flourish.

This mindset of continuous renewal is governance innovation.

Innovation is new value from new processes. It is more likely to occur at the intersection of disciplines, organizations, and cultures

¹ **The Medici Effect: Breakthrough Insights at the Intersection of Ideas, Concepts, and Cultures** is a 2004 book written by [Swedish-American](#) entrepreneur [Frans Johansson](#)



PREFACE

The concept of *governance innovation* indicates new ideas, experiments, and practices that can help achieve better coordination and more meaningful results in how we manage our societies, and our health sector institutions.²

Governance Innovation

A health system's vitality is interdependent with the vitality of its board. The vitality of a health care system is measured by (a) its ability to grow by delivering value for money to both its beneficiaries (clients, patients, customers) and its staff; (b) its ability to continuously improve the quality of its services/products; and (c) its ability to carefully steward its resources.

The vitality of a board can be found at the intersection of three behaviors:

1. The board's capacity to **continuously refresh** the effectiveness and efficiency of its mission-driven **decision making processes with information** that is accurate, honest, timely, and relevant to the challenges and mission of the organization;
2. The board's capacity to attract, retain and enthuse **good people** who participate in the decision making processes who have and continuously enhance five essential traits:
 - A passion for the organization's mission
 - Curiosity about how to resolve obstacles to achieving the mission
 - Relationships that enable mission accomplishment
 - Experience to empower and support a talented CEO
 - Hunger to reinvent and refine the decision making processes of the governance system
3. The board's capacity to move beyond benchmarking its performance and processes against health sector best practices to **explore and adapt effective strategies, styles, structures, and systems from other industries or communities**

In short, great boards need to be hungry for and experienced in "governance innovation." High performance governance innovation is all about better information, better people, and better processes.

² See for example: <http://governanceinnovation.org/> and http://www.euro.who.int/_data/assets/pdf_file/0019/171334/RC62BD01-Governance-for-Health-Web.pdf and <http://www.americangovernance.com/resources/reports/brp/2012/index.shtml>

Governance innovation is the continuous renewal of the principles, processes, and practices of decision making such that the conditions to successfully pursue achievement of the organization's mission is optimized.

Governance innovation yields a culture that leverages wisdom and practices that are:

- S.** Stakeholder Engaged
- M.** Mission Driven
- A.** Accountability Expected
- R.** Resource Mobilized
- T.** Transparency Enabled

Governance innovation embraces and distills the best ideas and initiatives at the intersection of five forms of governance:

1. Competency Based Governance
2. Collaborative Governance
3. Generative Governance
4. Intentional Governance
5. Transformational Governance

Discussion papers on each of these five forms can be downloaded from our web portal here:

<http://www.integratedhealthcarestrategies.com/knowledgecenter.aspx>

All the best,



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Managing Director & Practice Leader

What can U.S. health sector organizations learn from U.S. Credit Unions? Aren't financial services and health services fields too different to borrow ideas for great board work?

Discussions with board leaders from both health and credit union boards suggest there may be much more relevance than one might initially think.

Both rely on largely volunteer community, civic and business leaders to serve in their governance bodies; the governance of both are heavily influenced by corporate law and regulations to protect the public's interest; the performance of boards are dependent on wise decision making; and both demand accountability and transparency from their decision making processes.

This paper explores good governance among high performing Credit Unions as excerpted from an excellent guide: "Credit Union Board of Directors Handbook" Credit Union National Association (CUNA) Fourth Edition.³ Watch for ideas that you can bring into your health sector board work.

³ See: <http://www.cuna.org/Training-And-Events/Board-And-Volunteer-Training/Board---Volunteer-Training-Handbooks/>

The Credit Union Movement in the U.S.: Comparative Value for Health Services

Credit unions and their boards are unique in the financial sector – not so much in what they do, but in how and why they do it. Understanding this credit union philosophy guides the important work of credit union directors, and can stimulate valuable discussions among U.S. health sector governance participants.

Three characteristics distinguish the credit union from other organizations that offer similar services:⁴

1. Credit unions are cooperatives, owned by their members who democratically control it
2. Credit unions operate on a not-for-profit basis
3. Credit unions rely heavily on volunteers for their governance

Other guiding governance principles include:

- **Open membership:** any person of good will who falls within the field of membership may join.
- **Neutrality:** they don't discriminate and are politically non-partisan.
- **Financial stability:** the board and management must protect members' funds and assure the credit union's ability to serve members in the future.
- **Ongoing education:** this applies equally to members, volunteers, and staff.
- **Social responsibility:** improving members' lives requires improving their communities as well.
- **Cooperation with other cooperatives:** they help each other succeed in many ways.

These principles are known as the International Credit Union Operating Principles, codified by the World Councils of Credit Unions in 1982.⁵

⁴ See: Credit Union Board of Directors Handbook, CUNA, 2010, page 2

⁵ Ibid page 5.

Credit Union History⁶

Credit unions go back to the middle of the 1800s in Europe. They were born out of miserable economic conditions and the realization that average people would have to take action themselves – at a new level – if their lives were to improve. The idea that they could do so was a radical concept at the time. People formed groups to do things individuals couldn't accomplish on their own. Cooperatives of all kinds were formed. A leading health services cooperative was founded in Minnesota in what has become [HealthPartners](#).⁷

Credit Union Facts

- **Credit unions vary considerably in size.** Many have less than one-half million dollars in assets and fewer than 100 members. At the other end of the spectrum, some institutions have billions of dollars in assets and serve many thousands of members.
- **At mid-year 2009, there were 7,846 credit unions in the U.S.** (This number has dropped considerably over the years through mergers to achieve economies of scale.)
- **In twenty six years, U.S. credit union membership grew more than 90 percent:** from 48 million members in 1983 to more than 91 million in 2009.
- **Credit unions have formed an international network.** They serve 169.3 million members in more than 95 countries around the globe.
- **Credit unions provide consumer financial services as modern as those offered by other financial providers,** but often with better rates, terms, and fees.

The Work of Credit Union Boards of Directors

Similar to hospital and health sector organizational boards, every credit union has a board consisting of an odd number of directors, usually no fewer than five. Terms of office are staggered so that an approximately equal number of directors is elected each year. On a nine-person board, for example, directors might serve three-year terms, with three seats up for election each year. Some credit unions have term limitations for directors. Members vote for the directors, and balloting takes place by mail or at the annual meeting.

⁶ Ibid

⁷ For a copy of their Governance Principles, see:

https://www.healthpartners.com/ucm/groups/public/@hp/@public/documents/documents/cntrb_005576.pdf

In general terms, the board's job is to set direction for and control of the credit union. Guidelines in this task are the wishes of the membership, credit union philosophy, and the requirements of all pertinent laws and regulations. Directors are responsible for ensuring that the credit union is operated in a sound and prudent manner. They shoulder the legal responsibility for the decisions they make. Regulators determine if the responsibility and accountability have been satisfactorily managed⁸.

To accomplish the goals of the members and credit union, boards make plans, sets policies, evaluate progress, and appoint committees. Boards have final approval on the budget, the programs the credit union will offer, and the type of facilities it will use. Unless the credit union is run entirely by volunteers, the board also hires a chief executive officer (CEO) to oversee operations in accordance with approved policies.

The board usually meets monthly to review the credit union's operation and plan for the future. It reviews progress in achieving goals and objectives. The board reports to the membership at the annual meeting.

Board Duties and Responsibilities

The board of directors is responsible for directing and controlling the affairs of the credit union. Though board members probably won't perform the tasks themselves, the board is ultimately responsible for making sure the credit union:

- Is capably managed by a knowledgeable CEO and experienced staff
- Operates using sound business practices
- Complies with all applicable laws and regulations
- Achieves the goals state in the charter and the strategic plan
- Fulfills its purpose of making low-cost loans and encouraging thrift
- Provides adequate financial reserves to cover delinquent loans and other losses
- Protects against unauthorized or illegal acts through safe operating procedures and purchase of fidelity bond coverage

To carry out its role in meeting these requirements, the credit union board, as in a hospital board, develops policies, approves programs, hire and evaluates the CEO, and appoints committees as needed to accomplish its mission.

⁸ CUNA, Credit Union Board of Directors Handbook, 2010

General Board Responsibilities

Board responsibilities can be grouped into four major areas: *policies and planning*, *communication*, *trusteeship*, and *ensuring the continuity and development* of the credit union. As you review these roles, consider how you perform these duties in your health system board. How might you continually enhance your performance of this work?

1. **Policies and planning.** Plans and policies are the board's major tools for influencing the direction of the credit union. Board and management work to explicitly define the credit union's vision. Then they develop broad plans for turning that vision into reality. The board alone has final say in adopting plans and policies, although it's the responsibility of management to recommend policies and policy changes. Management also has the responsibility for implementing policies and plans.
2. **Communication.** The board officially reports to the membership at the annual meeting. It informs them about the general condition of the credit union, committee activities, and special projects. It presents information on electing board members and, if necessary, changing the bylaws. Less formal reports to members may be made throughout the year. Communication with management and committees and among board members is critical to the smooth operation of the credit union.
3. **Trusteeship.** The board ensures that members' funds are protected by requiring appropriate procedures and internal controls. Directors must assure everything is working properly through a regular evaluation of all financial affairs and management practices. It makes sure examiner and auditor recommendations are acted on.
4. **Ensuring continuity.** The board provides continuity in three ways:
 - a. It selects a capable CEO and provides the CEO with adequate authority, guidance, training, and support.
 - b. It continually evaluates the services and activities of the credit union to ensure the soundness and effectiveness of its operations.
 - c. It perpetuates itself by recruiting well-qualified volunteers to serve as directors. The board sets standards for its own performance, and maintains these standards by providing ongoing training for itself, staff, and other volunteers.

As you assess your ACO, health system, medical group, hospital, or local health department board, how might your journey to "governance innovation" be served by these type of responsibilities?

Board Assessments: Essential for Governance Innovation

Annually, high performing governing bodies find that it is a good idea to assess the board's performance. This gives the board an opportunity to look at how it operates and identify areas for improvement. At the end of the process, board members should be able to identify collectively areas where the board is performing well and areas for improvement.

It's important that the board agree ahead of time on the evaluation criteria it will use. The credit union's strategic plan, code of ethics, education plan, and financial measurements can all be used to develop evaluation criteria.⁹

Once the evaluation is complete, it's important to review the findings in an open and non-judgmental session. The board evaluation can be discussed as a group, avoiding personalities.

The board evaluations can be done in several ways:

- Each director evaluates board performance.
- The board evaluates itself as a whole.
- A combination of (a) and (b).
- An outside consultant evaluates the board.

For assistance among health sector board self-assessments, contact us at info@ihstrategies.com.

Director Qualifications

Often, little is said in either the charter or bylaws of credit unions about qualifications for the office of "director" except that candidates must be members of the credit union. Beyond that they should have a willingness and ability to:

- Serve the membership
- Continually learn
- Be a team player

- How does your health sector governing body define desired characteristics and competencies of its members?
- How could you enhance your board's embrace of "competency based governance?" For a paper on competency based governance, download it here <http://www.integratedhealthcarestrategies.com/knowledgecenter.aspx>

⁹ IBID page 67

Board Effectiveness

As in hospital and health system boards, the quality of a credit union's leadership is probably the most important factor in its success. A study sponsored by the Filene Research Institute identified board activities, work styles, and characteristics that contribute to outstanding credit union performance.¹⁰

Ways you can develop these activities and traits are:

- Know your role and that of your credit union's staff. Your role is to set policy; staff is to carry it out. You determine what is to be done; staff does it.
- Hire the best management you can afford because effective management is one of your credit union's best assets. Establish performance standards and compensate the CEO adequately.
- Don't let the CEO "run" the board. You shouldn't be a rubber stamp for management's suggestions; the ultimate legal and ethical responsibility for the credit union's operations is yours.
- Make timely decisions. Don't procrastinate. When action is necessary, get the facts and act. Know that delays can be costly in money, staff morale, and good will.
- Accept and adapt to change. Welcome new ideas and be imaginative. Learn from your mistakes and others' and move on.
- Be enthusiastic about the job and the prospect of serving the members. Be an ambassador for the credit union.
- Cooperate with other directors and support decisions once they're made. Decisions reflect board consensus and majority rule.
- Find constructive ways to resolve conflict. Don't allow it to derail board operations. Stick to the facts and push for consensus.
- Make the credit union an active force in improving member's welfare. This may extend beyond a strict definition of credit union and financial services.
- Be familiar with all your credit union's services and use them. If you don't how can you expect other to?
- Be objective, exercise independent judgment, and avoid or properly handle all conflicts of interest.

¹⁰ Ibid page 29. Also see: www.filene.org

- Honor the confidentiality of members' personal information.
- Commit to give the time and effort necessary to perform your duties well.
- Prepare yourself for meetings. Read the reports you receive from the chair and management. Attend and participate in all board meetings.
- Constantly improve your knowledge and skills through all available avenues.
- Study your credit union's financial reports: the financial statements, the budget, and the latest comprehensive audit. If you don't understand something, ask questions until you do understand.
- Make sure management keeps you fully informed about the credit union's operations. Know what's going well and why, what isn't going well and why, and where problems might develop.
- Get help when you need it. No board is expert in everything. When expertise is needed, get it, even if you have to pay for it.

Director Liability Checklist

Health sector governing board members would be wise to explore how they can avoid similar challenges cited for credit union members below:¹¹

- Understand your duties and commitments as a director.
- Avoid all conflicts of interest or appearance of conflicts of interest.
- Know the laws and regulations that apply to credit unions.
- Regularly attend meetings. Being absent from a meeting doesn't necessarily protect you from liability for an action or decision that results in a claim.
- Review financial, committee, examiner, and other reports about your credit union. Make sure you receive the information prior to the board meeting with ample time to review it.
- Establish a written policy manual. Policies define your manager's authority, as well as guidelines for lending, operations, personnel, investments, and more.

¹¹ See page 39 Credit Union National Association, Inc. Reprinted from *Credit Union Directors* newsletter.

Director Liability Checklist (Cont'd)

- Regularly review the activities of your credit committee or loan officers.
- Regularly review and/or recommend actions on delinquent accounts. Establish general policies to address typical situations. Review exceptional cases and spot-check compliance with established policies.
- Periodically review charged-off loans to tell you what your credit union did wrong and whether it should take corrective action.
- Review and act on regulatory examination reports. Assign the responsibility for answering any questions to management, a committee, or the chair.
- Ensure that the supervisory committee conducts a periodic audit and member account verification. Examine the results.
- Periodically review salary scales, employee benefits, and personnel policies. Be sure policies comply with applicable laws.
- Periodically review your credit union's insurance coverage. Review your limits of liability, types of insurance, and whether the addition or appreciation of assets has resulted in insufficient coverage.
- Establish and monitor a security program.
- Obtain outside experts' assistance when necessary, including auditors and lawyers.

Yes, services to protect, promote, and restore financial health are different than services to protect, promote, and restore a population's health. But governing the organizations charged with delivery of such services can benefit from periodic conversations about best practices and governance innovation.

How might you arrange such conversations in your community and region?

The Governance & Leadership practice of Integrated Healthcare Strategies uses proven, state-of-the-art governance design, educational programs, and tools to help boards use their time and talents more effectively. Our team of consultants have extensive experience in the assessment of board performance and in the development of strategies and systems to continuously enhance the governance of complex healthcare and hospital systems.

For more than 40 years, Integrated Healthcare Strategies (Gallagher Integrated), a division of Gallagher Benefit Services, Inc., has provided consultative services and people-based solutions to clients across the healthcare spectrum, including community and children's hospitals, academic medical centers, health networks, clinics, and assisted-care providers. Our Gallagher Integrated consultants and nationally recognized thought-leaders help organizations achieve their business goals, by ensuring top talent is attracted, retained and engaged, while measuring and maximizing human and organizational performance. With tailored solutions that extend well beyond single services, Gallagher Integrated offers the knowledge, guidance, and insights that organizations need to not only survive the rapidly changing healthcare environment, but to succeed in it.



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