SWOBODA RESEARCH CENTRE

DEVELOPING CREDIT UNION GOVERNANCE

An initiative from the Swoboda Research Centre

Strengthening Governance Relationships …
Think Laurel & Hardy

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In 2017, Swoboda Research Centre Directors Paul Jones, Nick Money and Ralph Swoboda authored the first holistic, bespoke manual on *Credit Union Strategic Governance* (Liverpool John Moores University). A project is now underway to refresh that document, update it and ensure its relevance to Ireland and other jurisdictions. The revised material will include more succinct and user-friendly summaries, together with an updated full manual.

Swoboda is engaging governance experts to lead a review of the many topics covered by the report and intend to publish each of these reviews for feedback, prior to the final compilation. This is the first of these articles and is adapted from chapter 4 of *Credit Union Strategic Governance*. Please send any comments to Paul Jones, Director of Research at paul.a.jones@swobodacentre.org.

Strengthening Governance Relationships …
Think Laurel & Hardy

By Paul Rooney

There is nothing funny about governance. Rather than relaxing, boards and CEOs are under increasing pressure to demonstrate how their governance arrangements meet the increasing obligations and business complexities.

But can the comedy genius of Stan & Ollie, Eric & Ernie, Dawn & Jennifer, and Ant & Dec[1] teach organisational leaders how to work more effectively together in partnership?

So, concentrating on the chair of the board and the Chief Executive Officer / General Manager (CEO) in social good organisations, what can such legendary double acts inform them about their own relationship?

1. Governance System - Clear division of responsibility

A typical system of governance is based upon an understanding that the board leads, directs and controls the organisation whilst delegating executive authority to the CEO to manage the board's agreed strategy and operations to achieve its objectives. The CEO, as the "board's one employee", is then accountable to the board for the management of the strategic development and the day-to-day operations against the defined objectives.

Successful leadership of an organisation is a shared function between a board and its CEO and depends on this appreciation of partnership rather than a hierarchy (even though the CEO remains ultimately accountable to the board). These two functions do not work in isolation but rather they are mutually inter-dependent and work with one another for the success of the business.

Most Directors and CEOs recognise this central principle of the governance system and would cite for themselves that the success of the organisation depends on a relationship of mutual respect, trust, and collaborative partnership based upon the acceptance of the distinct roles and responsibilities.

Keeping our double act analogy going, the clarity of roles and responsibilities within the governance system should ensure each "comedian" takes their agreed cue for the benefit of organisation. Governance issues arise where one or more of the parties 'go into business for themselves', leading to an imbalance in the system to the detriment of the organisation.

So, why do some leaders in the governance 'double act' commonly fail to 'stay in their own lane' to the detriment of organisational 'performance'?

[1] Comedy double acts, mostly on British TV apart from [Stan Laurel and Oliver Hardy]

2. The Governance Roles – CEO & Chair

As a starting point the CEO is accountable solely to the board, and not to any individual board member, including the chair of the board. However, central to the effectiveness and efficiency of the governance model is the relationship between the chair and the CEO.

The chair and CEO should be recognised as inter-dependent actors with their own distinct governance functions and as such have a relationship that should be based on a sense of equality, rather than of hierarchy, supporting the organisation achieve its purpose.

CEO

A board's appointment of an effective CEO with the strategic leadership skills is a critical element of good governance; bringing with him or her the vision, insight, and competence needed in strategic planning and organisational delivery.

To be effective, a CEO does not just do what the board direct but offers expertise in leadership, strategy, and management. For a board to hold a CEO accountable for the performance of an organisation, the CEO needs to be clear about their specific responsibilities and know the exact nature, extent, and level of executive delegated authority under their control.

It should be emphasised that the board's delegation of executive authority is to the CEO alone, with accountability and responsibility for the management of all other staff resting with the CEO.

The CEO's role is to manage and run the credit union.

Chair[2]

The role of chair of the board in social organisations has evolved perhaps more than any other within the governance model in recent years. However, noticeably, unlike in corporate boards and in public sectors, the assignment of responsibilities upon the role of chair does not always come with the same comfort of clear demarcation as that of the board and CEO.

The chair acts as the primary liaison between the board and the CEO; whilst the CEO is the single link between the board and the staff. Also, by having a single point of contact with the board through the chair, avoids the CEO being pulled in multiple directions by requests from individual Directors.

As the Director in most frequent contact with the CEO, the chair should provide encouragement and counsel to the CEO, along with a supportive and confidential environment in which to discuss issues outside formal performance processes. In this way, the CEO can remain assured that their overall management priorities and decisions are aligned with board expectations, with the chair serving as the liaison and conduit with the board.

It is the Chair's role to manage and run the board.

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[2] In some credit unions, termed the president. However, to stress the fact that there is no particular authority vested in the office of chair, apart from reflecting the voice of the board, the Swoboda model prefers the term chair rather than president. But this is ultimately a choice of each credit union.

3. The Working Relationship – CEO & Chair

Directors and managers who demonstrate an appreciation of the nature of a division of responsibility within the governance model recognise that the chair-CEO relationship is one based on equality and on a shared understanding of the two distinct functions.

A key observation of the many instances of problems in governance relationships relate back to the lack of a clear understanding of the division of responsibilities between the chair and the CEO. If uncertainty exists as to the nature, level and extent of delegated authority, their roles and responsibilities remain confused, and the sound development of the business can be compromised.

Where expectations are unclear or unstated, CEOs can be unsure of the extent of their decision-making authority, and this can more readily allow for situations to arise where Directors can easily become enmeshed in the minutiae of management decision-making and distracted from their core role of setting strategic direction and monitoring the overall performance.

Whilst the CEO reports to the board as a whole and is held to account by the Directors acting collectively, it is increasingly common for the effective performance management of the CEO to be performed primarily by the chair. A dominate chair (and/or board) can also leave a CEO feeling that they need to check out or seek approval for even minor decisions, ultimately hampering the ability to develop the business and undermine the strategic entrepreneurial leadership for which they are employed. All of which, can create an imbalance in the relationship and a mis-construct that the chair is a *de facto* “manager” or “supervisor” of the CEO.

4. Delegation of Executive Authority

The delegation of authority to the CEO is of fundamental importance to the governance system.

Leading academics are clear that it is for the board to define the line of authority and responsibility between itself and that of executive management, and indeed this may vary according to individual organisational circumstances.

Without clear delegated authority, the CEO is in fact denied control of the organisation and, importantly, if the board is *de facto* making management decisions, it cannot hold the CEO accountable for success or failure in the achievement of its objectives.

A board should be focussed on what it wants the organisation to achieve and should delegate maximum possible authority to the CEO to manage the organisation to achieve its purpose. Unnecessarily holding back delegated authority to make decisions is seen to significantly undermine the capacity of the CEO to deliver on objectives. The reason for such an extensive delegation of authority is to give the CEO as much scope as possible in decision making and to encourage creativity and innovation in growing and developing the organisation.

In addressing the need for clarity, some organisations write down a list of the areas for which the CEO has delegated authority. This is a schedule of delegated authorities. In practice, rather than write down everything they can do, this schedule often focuses on executive limitations whereby the board stressed not what a CEO has the authority to do in every situation but rather what decisions are reserved to the board.

So long as decisions are within policy, compliant to the strategic plan, budgets and resources, the CEO has delegated authority to take the organisation forward. This allows a CEO the maximum possible authority in taking decisions in the best interests of the organisation, whilst granting the power to maximise creativity and innovation.

For boards, this acknowledges the importance of delegating as much as possible whilst maintaining their control and accountability through an effective scrutiny and monitoring system to hold the CEO accountable for the outcome and consequences of the decisions taken.

5. Conclusion

In summary, the focus of a board needs always to be on the big picture and moving forward, and to fully commit to this, it must delegate to the CEO the necessary control to ensure that the organisation works in practice and succeeds. Precisely where the lines of authority and responsibility are drawn between the work of the chair, and the collective board, and that of the CEO is less clear and does depend on the specifics of the individual organisation.

Whilst it may not be possible to map out every situation, there is obvious organisational benefit in removing as much scope for uncertainty as possible from the governance system. Boards should be encouraged to agree a statement of the demarcation of responsibilities of board, chair, and CEO, and the executive delegation to the CEO in the appropriate detail, all informed by the CEO's input. Such agreed statements will greatly assist in establishing the expectations upon each critical component of the governance system and can act as an *ad memoire* where contention arises.

Beyond the agreed 'script' of the board, the maintenance of a healthy, positive, and trusting relationship between the chair and CEO will help them to adopt the observed traits of a successful "double act" for those unexpected and unplanned times; with a prerequisite mindset to collaborate rather than compete with one's partner; instinctively perceiving when to take the lead, when to defer, and when to step forward into the limelight together to achieve the best outcomes for the organisation.

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About the author

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Paul is an accomplished transformational executive, non-executive and MBA graduate - inspired to realise the full potential of organisations within the scope of ethical and sustainable methodologies. Paul has served two decades in leadership and strategic roles within diverse and challenging environments including an impressive political and legal career; all of which demonstrate an embedded ethics, values, and integrity. His proven track record in successful business improvement is based upon systems thinking; specialising in the appraisal of business processes in the evaluation of the potential presented by technology propositions and the application of his '3Ps' (Prudence, Performance & People) in the enhancement of operational performance.

Appointed by Government and others for his expertise in governance, strategy, and analysis; Paul has received national recognition for his leadership, innovation, and public policy activities across ethical finance, policing and responsible investment.

Paul was awarded an MBA with Distinction from Strathclyde Business School, with his thesis exploring the influence of organisational culture upon successful transformational change.

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About the Swoboda Research Centre

The Swoboda Research Centre is an independent, not-for-profit organisation delivering participative, action-orientated research and events to credit unions and community finance providers in Ireland and Great Britain.

For more information or to get involved, contact Nick Money, nick.money@swobodacentre.org.

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