

Does Good (Effective) Governance Equal Good Credit Union Performance?



ROBBY TULUS

IMPORTANCE OF EFFECTIVE GOVERNANCE

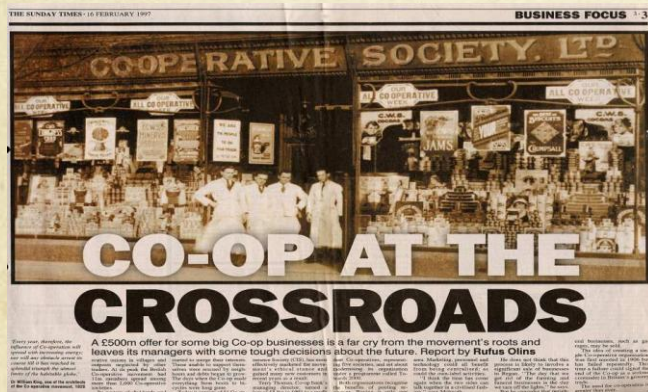


**CU/COOP collapse,
corporate scandals,
financial crisis largely
due to failures in
GOVERNANCE**





COASTAL CREDIT UNION

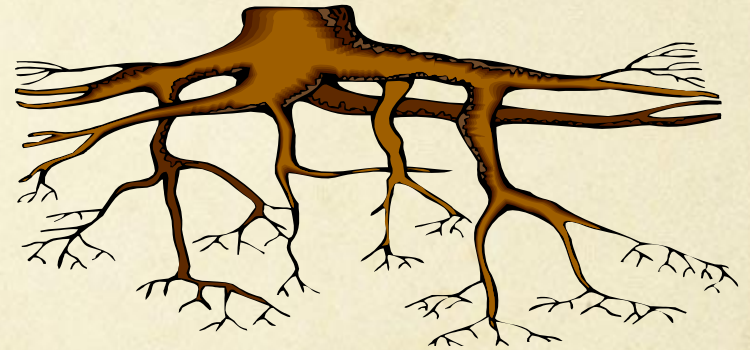


DEBATE ABOUT GOVERNANCE

Growth causes governance
to improve ...



Better governance causes
growth?



CASUALITY....

GOOD GOVERNANCE



GOOD GOVERNANCE IS THE PROCESS
OF DECISION MAKING AND THE
PROCESS BY WHICH DECISIONS ARE
IMPLEMENTED.

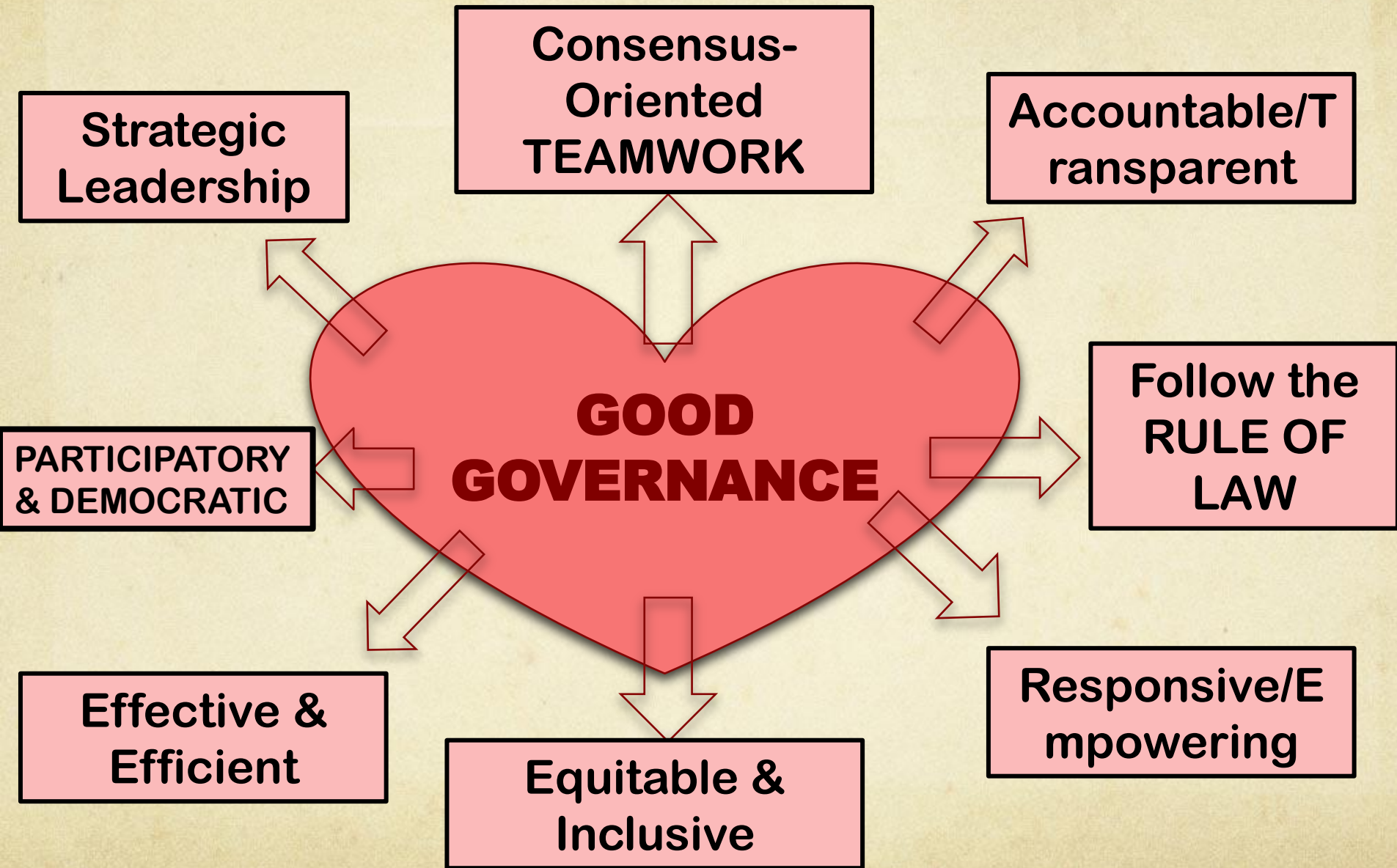
**LEGAL - ETHICAL - PROFESSIONAL - ACCOUNTABLE
(LEPA)**

GOOD GOVERNANCE



!It's not about making correct decisions but about employing the best possible rules, practices and processes for making those decisions which are good for the organization and beneficial to all members/stakeholders

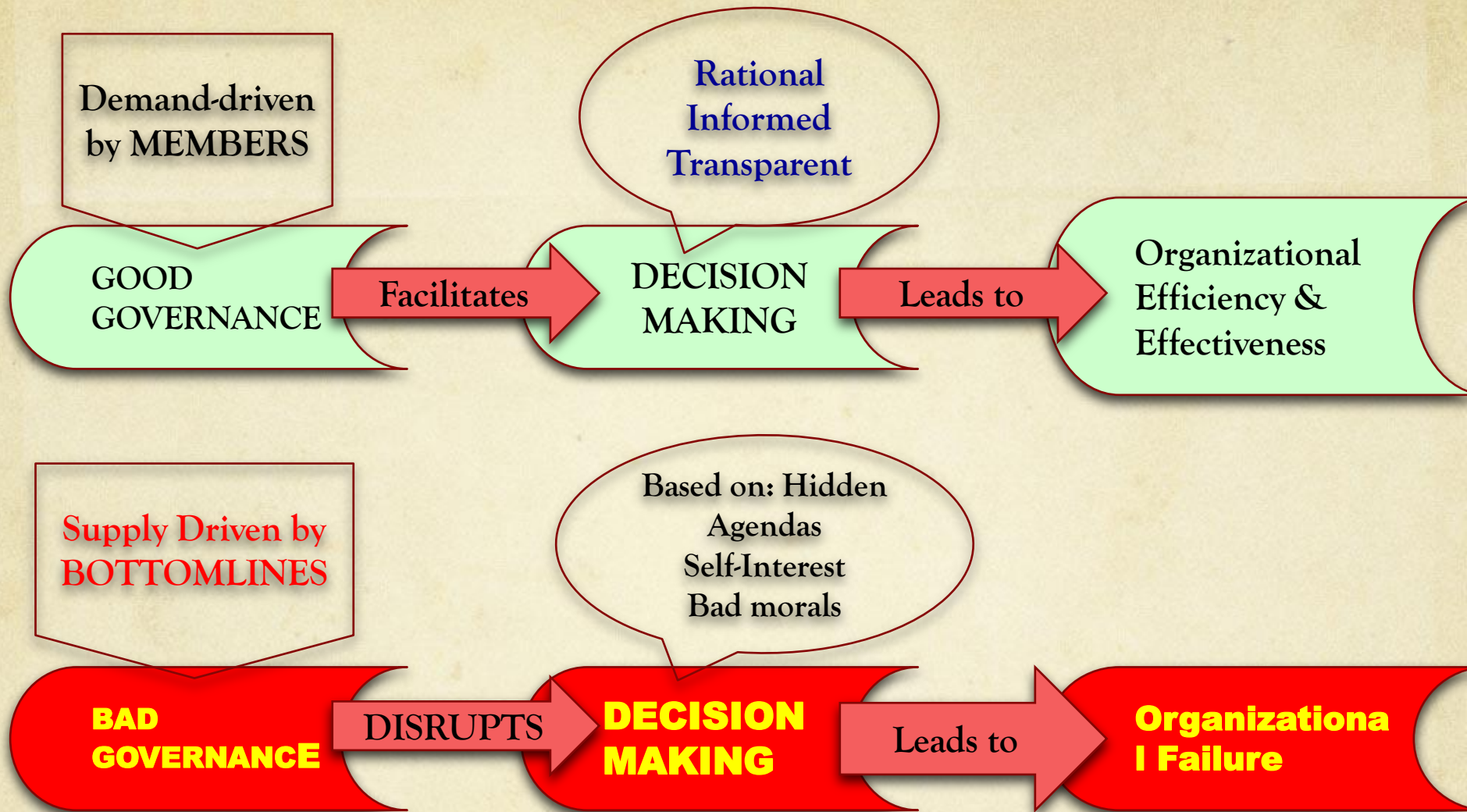
LEPA ALSO MEANS.....



CO-OPERATIVE/CREDIT UNION GOVERNANCE



- Co-op Boards must be driven by - and be accountable to - **MEMBERS** and understand fully the co-operative values, principles, rules and regulations
- It's not just about **MONEY** and the CU Bottom-lines



CREDIT UNION GOVERNANCE

Organizational
Efficiency &
Effectiveness

SUPPORTS &
FOSTERS

Innovation,
Competitiveness
Quality P & S
Members' Trust

**CU GROWTH &
DEVELOPMENT**

**Organizational
FAILURE**

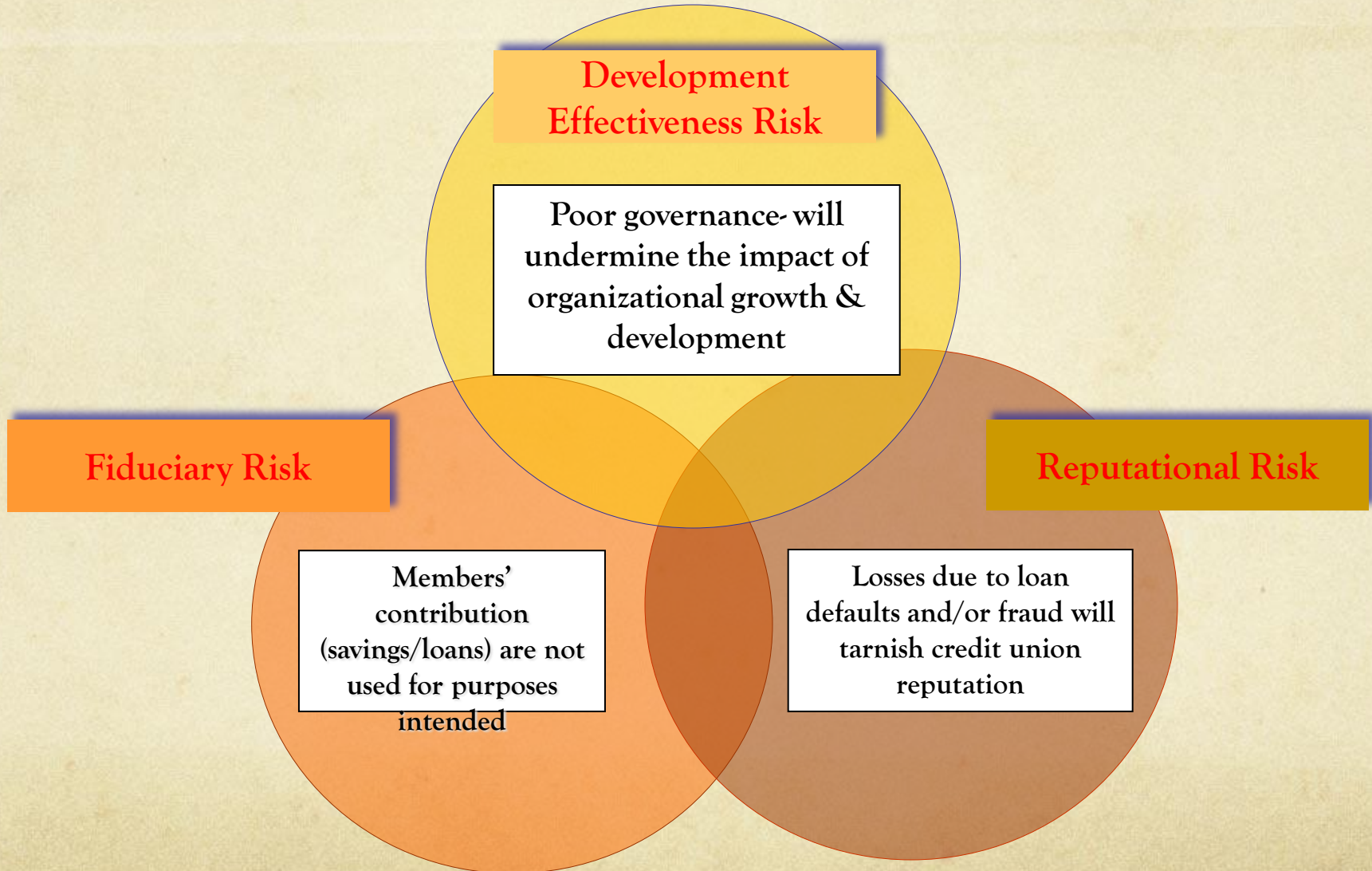
BRINGS
ABOUT

Bad public image
Lost of members'
confidence
Delinquencies (Rush...)

**CU
COLLAPSE**

CREDIT UNION GOVERNANCE

Poor Credit Union Governance: 3 Potential Risks



Governance Problems: some examples

❖ **Corrupt practices by Coop/Credit Union leaders:**

- Leaders plundering credit union assets for personal gains
- Powerful “coop oligarchs” colluding with government officials
- Corrupt leaders colluding with corrupt investors: using coop law as scheme for personal gains or “loan sharking” (offering good returns) i.e. the “Bernard Madoff” syndrome or the Ponzi Scheme

❖ **Nepotism and Patronage**

- Political pressure for award of contracts, appointments in co-ops
- Politicized transfers & board supersession (South Asia)

❖ **Administrative (Petty) Corruption & Inefficiency:**

- Bribes for obtaining coop licenses, permits, government services
- Diversion of funds for non-essential coop programs
- Inefficient and ineffective service delivery

Roadblocks to effective governance



- Poor and/or fraudulent leadership
- “Representational mindset”...
- Lack of sustained commitment to Vision, Mission, Values
- Undermining functions, roles and responsibilities
- Overlapping or unclear roles between Board & Management
- Lack of mutual trust within Board and between Board and Management

F. W. Raiffeisen (1818 - 1888)



"Credit Unions must not confine themselves to granting loans. Their main objectives should be to control the use of money, and to improve the moral and physical values of people and, also, their will to act by themselves."

CREDIT UNION GOVERNANCE

INTERNAL

EXTERNAL

1. C-op Law: Gov't
policies &
regulations

2. Stabilization Fund/
Deposit Guarantee

CU Bylaws and Articles of
Incorporation
Vision, Mission, Values
Board Policies (FIVE PILLARS)
Strategic Plan
Annual Budget
Management Policies &
Procedures
Data-base & ICT

GOOD GOVERNANCE

LET'S WATCH THE FOLLOWING



VIDEO CLIPS

PLAY YOUTUBE VIDEOS

<https://www.youtube.com/watch?v=moHFNsHsIg4>

<<https://www.youtube.com/watch?v=V0zemSfMWSQ>>

BASIC LESSONS:

1. FOR WHOSE BENEFIT?

**2. HIERARCHICAL
LEADERSHIP APPROACH?**

3. MANAGERIALISM?



Asian Credit Union Forum 2016 - Robby Tulus

Role of Board of Directors & Management

OWNERS
(MEMBERS)
MUST
BENEFIT

- **Board:** what is to be achieved? For whom and at what cost?
- **Management:** how will it be achieved?

Role of BOD & MANAGEMENT



- Board “owns” the Vision, Mission and Values **(ends)**



- Management “owns” Strategic Plan **(means)** to meet ends.

Common roadblocks to effective decision-making PROCESS



- Hidden agendas – Rivalries among Board members
- Management: Let (and not make) things happen – strategic plan missing or ignored
- Fraud, cultural issues (social status, hierarchy)
- Money politics
- Structural Issues
- Other leadership and operational issues

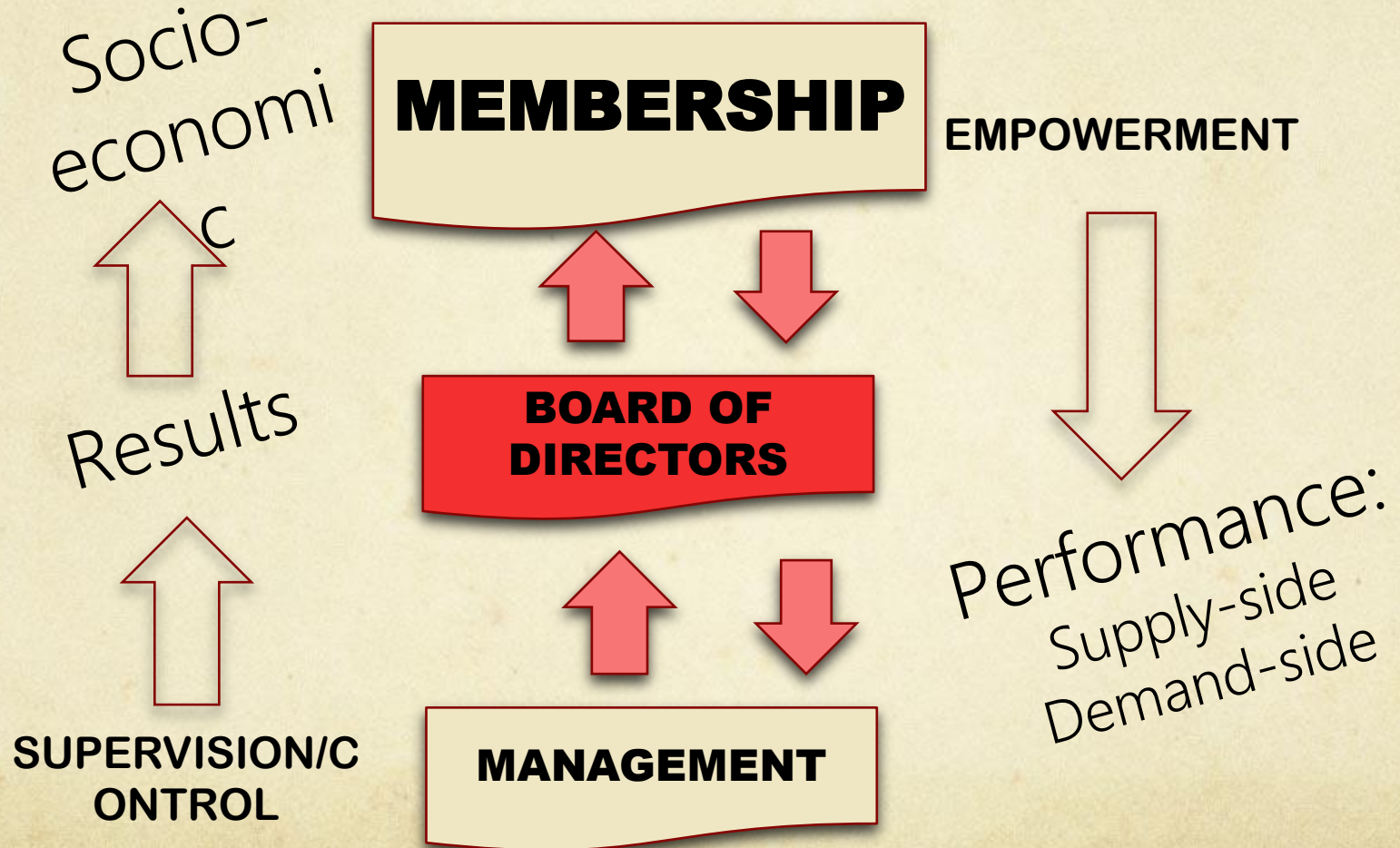
FRAUD & MORAL HAZARD



Social anthropologist David Harvey:
*'accumulation by
dispossession'.....*

Processes to Empowerment & Accountability

Members EMPOWER Board & hold Board ACCOUNTABLE



Results-Based Governance (RBG)

Strengthening Five Credit Union pillars:

1. Education
2. Self-help
3. Solidarity
4. Innovation
5. Unity



ADOPTED FROM GOVERNANCE REORIENTATION AT CUCO-INDONESIA

PILLAR 1: EDUCATION

BOD MUST ESTABLISH PROCESSES & DEVELOP POLICIES TO STRENGTHEN EDUCATION & TRAINING FOR:

1. MEMBERS 2. MANAGEMENT 3. ELECTIVE BODIES (BOD & SUPERVISORY COMMITTEES)

BOD MUST ESTABLISH PROCESSES & DEVELOP POLICIES TO ENHANCE ADVOCACY & PROMOTION FOR:

4. COMMUNITY/PUBLIC 5. CO-OP MOVEMENT
6. GOVERNMENT

PILLAR 2: SELF-HELP

BOD MUST ESTABLISH PROCESSES & DEVELOP POLICIES TO ACHIEVE AND SUSTAIN IT'S BUSINESS SELF-RELIANCE:

1. Sufficient Institutional Capital
2. Capital Adequacy
3. Financial Discipline
4. Savings mobilization
5. Product Diversification
6. Delinquency control mechanisms
7. Members' security (Insurance & Stab Fund)

PILLAR 3: SOLIDARITY

BOD MUST ESTABLISH PROCESSES & DEVELOP POLICIES TO ACHIEVE AND SUSTAIN ITS SOCIAL PROGRESS:

1. Incentives for members' engagements
2. Easy access to services
3. Community events
4. Sense of ownership, security, freedom, support, inclusiveness in their CU
5. Crowd funding, liquidity pooling
6. Reward for members' performance

PILLAR 4: INNOVATION

BOD MUST ESTABLISH PROCESSES & DEVELOP POLICIES TO ENHANCE INNOVATION:

1. Use of Latest ICT applications
2. Innovation of new financial product lines
3. Consolidation of the Social-Economy
4. Engagement of Millennial(s) and the Sandwich Generation (Demographic bonuses)
5. Use of Renewables

PILLAR 5: UNITY

(AT SECONDARY LEVEL)

BOD MUST ESTABLISH PROCESSES & DEVELOP POLICIES TO STRENGTHEN UNITY OF THE CU MOVEMENT:

1. Standardization
2. Tier consolidation
3. Contractual Solidarity
4. Shared services
5. Leadership exchanges/succession planning

PILLARS OF GOOD GOVERNANCE

FOUNDATIONS

EDUCATION

SELF-HELP

SUSTAINABILITY

UNITY

Primary

Secondary

National

Regional

Global

FACILITATORS

SOLIDARITY

INNOVATION

- Adopted from the CUCD-Indonesia Model -

Results-Based Governance (RBG)

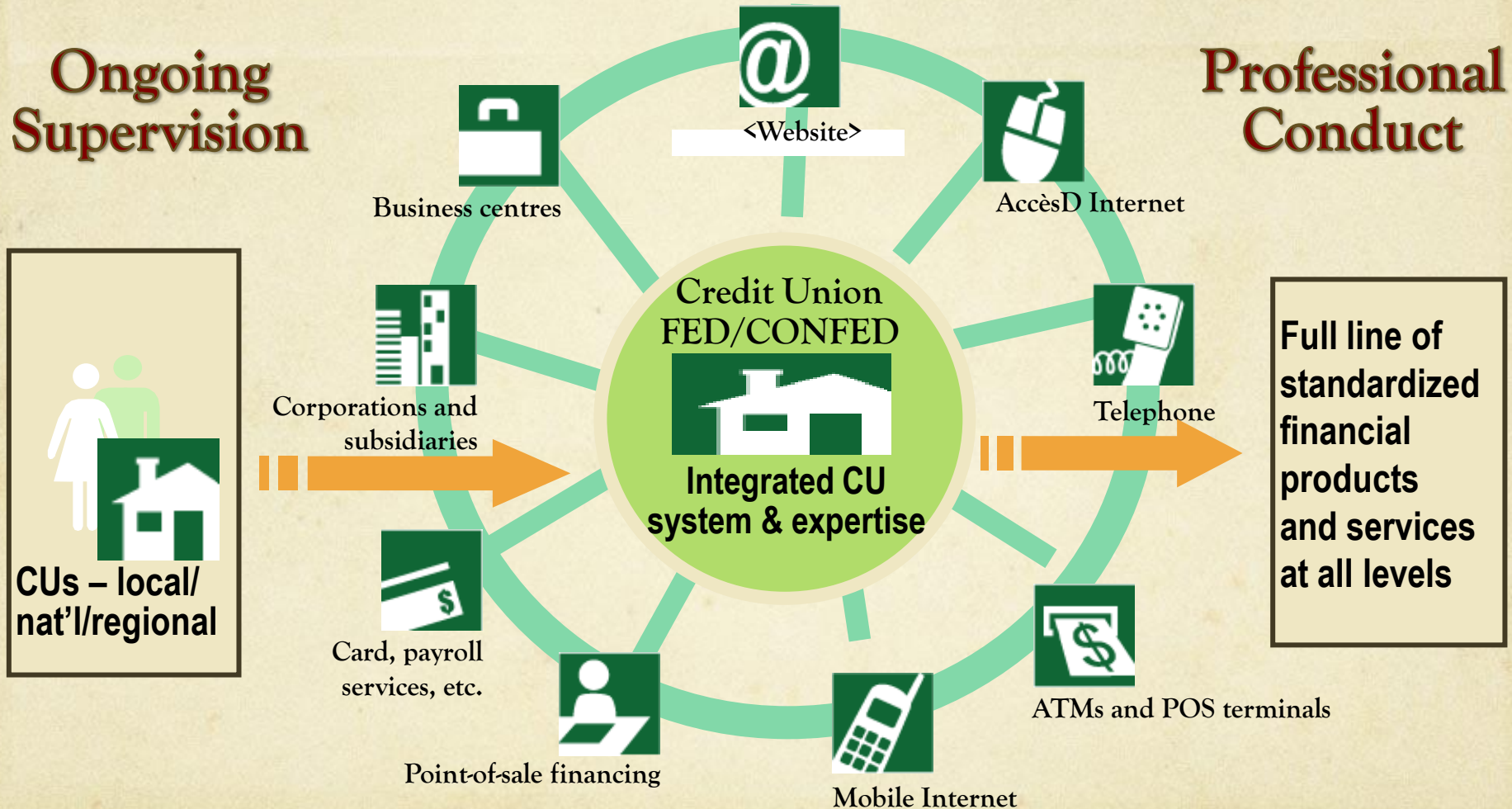
Strengthening Five Credit Union pillars:

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ADOPTED FROM GOVERNANCE REORIENTATION AT CUCO-INDONESIA

CREDIT UNION GOVERNANCE - AT SECONDARY/NATIONAL LEVEL -



**GOOD PERFORMANCE CAUSES GOVERNANCE TO IMPROVE & HENCE
GROWTH CONTINUES WITH GOOD GOVERNANCE**

Adapted from an integrated network model introduced by Movement Desjardins

CU LEADERSHIP & GOVERNANCE

- 1. Credit Union Leadership who observes LEPA & RBG shapes standards of effective (good) governance**
- 2. Credit Union Leadership who observes LEPA & RBG are bound to catalyze needed & difficult organizational changes**
- 3. Credit Union Leadership who observes LEPA & RBG are bound to be reform-minded and must be empowered**

CU LEADERSHIP & GOVERNANCE

- 4. Credit Union Leadership who observes LEPA & RBG are bound to be more innovative and transformational.**

THEREFORE:

**It is recommended that ACCU
creates a Governance Alliance: Peer
support network of CU leaders
committed to LEPA**

BENEFITS OF A GOVERNANCE ALLIANCE

- 1. IMPROVES CREDIT UNION PERFORMANCE & COMPETITIVENESS**
- 2. PROMOTES CREDIT UNION FINANCIAL STABILITY**
- 3. FACILITATES CREDIT UNION GROWTH**
- 4. ENHANCES EFFECTIVE UTILIZATION OF RESOURCES**

BENEFITS OF A GOVERNANCE ALLIANCE

- 5. BOOSTS CREDIT UNION CREDIBILITY DUE TO TRUST AND HONEST RELATIONSHIP**
- 6. BECOMES PREFERRED & TRUSTED EMPLOYER**
- 7. CREATES MORE DIVERSIFIED PRODUCTS AND SERVICES TO MEMBERS**
- 8. CREATES GREATER RESPECT TO THE CU ORGANIZATIONAL BRAND**

ARE YOU “GOVERNANCE-ABLE”?

READY TO APPLY A DECISION MAKING PROCESS THAT IS :

LEGAL – ETHICAL – PROFESSIONAL – ACCOUNTABLE

(LEPA) ?

READY TO OBSERVE RBG WITH THE FIVE CU PILLARS, I.E.:

EDUCATION – SELF HELP – SOLIDARITY – INNOVATION – UNITY

?



THEN.....

Good Governance Equals
Good Credit Union
Performance



ROBBY TULUS
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