

Speaking a Common Language

Recruitment & Selection Practices in International Credit Union Governance



In 1950, U.S. President Truman dedicated a building in honor of credit union pioneer Edward A. Filene and said: “In whatever country they may be found, these [cooperative] activities speak a common language... Their common language may be found in the principles of self-help, mutual assistance and democratic control.”

One of the most distinctive features of credit union democracy is a board of directors which plays an essential role in the success of the credit union. The elected board represents the interests of the membership, selects the CEO and has ultimate authority over the credit union. Therefore, the manner in which it is determined who will be sitting on the board can make a fundamental difference in the governance and performance of the credit union.

In a recent study published by the Filene Research Institute, entitled *Recruitment and Selection Practices at Credit Unions Boards*, author William Brown, assistant professor at Arizona State University collected surveys from 713 credit unions across the U.S. to find out how credit unions recruit and select qualified board members. In order to evaluate practices in countries representing credit union systems along different stages of growth, World Council of Credit Unions (WOCCU) compared responses from the U.S. movement by asking similar questions to credit union representatives from Ireland, Peru and Brazil.

Recruitment of Board Candidates

Brown discovered that U.S. credit unions use fairly limited board recruitment strategies. The most prevalent practices include:

- networking and word of mouth,
- relying on the existing volunteer network, and
- using a nominating committee often dominated by existing board members.

As a result, credit union board candidates in the U.S. tend to be similar to current board members. The Filene study suggests developing board member profiles and job descriptions and adopting more comprehensive recruitment systems.

A nomination committee is the most common way to attract board candidates in both Ireland and the U.S. In Peru and Brazil board candidates are nominated at annual meetings. Mr. Alcenor Pagnussat, president of Confederação Interestadual das Cooperativas Ligadas ao SICREDI in Brazil explains that SICREDI has a specific

program that integrates all credit union members in frequent meetings to discuss issues and nominate members, resulting in more potential candidates, more diversity and stronger member involvement in the recruitment process. Pagnussat states, “This program provides Brazilian credit unions with good board members.”

Board Elections

In all four countries, board directors are elected based on the one-member, one-vote principle. However, responses to Filene’s survey paint an unenthusiastic view of board elections in U.S. credit unions:

- Most board positions are uncontested, and
- 92 percent of smaller credit unions (assets US\$25 million or less) and 46 percent of larger credit unions (assets US\$500 million or more) hold board elections only at annual meetings.

As a result, the process of open elections is limited in the U.S. because board elections are generally open only to those attending annual meetings. Relatively few U.S. credit unions use mail ballots or Internet voting which would provide a more open process to elect the board.

Manuel Rabines, CEO of the National Federation of Savings and Credit Cooperatives explains that in Peru candidates are nominated at the annual meeting and because of the spontaneity of the nomination procedures “sometimes people with less training win the elections.” Brazil and Ireland have different nomination procedures, but voting is also held at annual meetings; however, credit unions in these countries rarely have uncontested board elections.

WOCCU’s International Governance Principles state that the annual meeting of the general assembly should be adequately promoted to ensure sufficient member participation. Credit unions should also consider having more candidates to choose from and giving every member the opportunity to vote for their representatives in a variety of ways: attending the annual meeting, by mail or via the Internet.

Board Representation and Terms

The Filene study confirms most credit union boards fail to reflect the changing demographic composition of their memberships. According to the survey, the make-up of U.S. board members is typically white (89%), male (75%) and over 50 years old (75%). Moreover, the study suggests this will continue until different practices are instituted. Only 15 percent of surveyed credit unions use term

limits for board members, although the majority of U.S. CEOs and one-third of board chairs feel there should be a limit on the number of consecutive terms a director may serve.

Credit unions must strike a balance between diversity and efficiency in designing the structure of their boards. John O'Halloran, head of legal & secretariat at the Irish League of Credit Unions observes that in Ireland there is no term limit either, but the board turnover is high: "It is difficult to attract volunteers in today's affluent society (not just for credit unions). Some credit unions have reduced the number of directors required to serve on a board," O'Halloran adds. Despite having smaller credit unions than the U.S., Irish credit unions have much larger boards, 13 on average. Across the four provinces, board sizes typically range from 4-15 individuals. In the U.S., board sizes average seven for smaller credit unions and nine for larger ones.

Some countries use board rotation techniques. In Brazil, the law states one-third of credit union board members must be replaced at each election. In Peru, the maximum number of consecutive terms that may be served is two. Rabines adds, "The admittance of young members with new ideas onto the board should be taken into consideration."

WOCCU recommends rotating directors to encourage fresh viewpoints in the boardroom. Unlike for-profit institutions, credit unions should strive for a board that responds to the demands of the general membership. By having a representative board, credit union members are more likely to have a voice and feel a stronger connection with their credit union.

Quality of Board Members

An area of concern, according to most surveyed CEOs and a minority of board members in the U.S., is that boards tend to re-nominate any incumbent who wants to serve another term, even if the director did not contribute much during the previous term. In Brazil, "If a director does not attend two consecutive or four alternated meetings, he or she is removed from the board," notes Pagnussat. The assessment of individual board member performance could be an effective but difficult strategy. Implementation of term limits might be a more practical solution.

Training is another key component of the quality of board members, especially in developing credit union systems. Rabines agrees, "Generally the achievements of the board of directors in Peru are acceptable, but they could be better. In this sense, better training is necessary for directors, which would allow them to make adequate decisions for the benefit of the institution." WOCCU's Governance Principles suggest expanding training opportunities to



Board Characteristics in Select Countries


	U.S.	Ireland	Peru	Brazil
Board Size	4-15 (average 8.16)	7-15 (average 13)	5-7 n/a	5-12 n/a
Average credit union membership	9,250	4,670	2,830	2,209
Typical term for board members	3 years	3 years	3 years	3 years
Maximum number of consecutive terms	Unlimited	Unlimited	2 terms	1/3 of the board should change every election
Compensation paid to board members	No	Only for the treasurer	Yes	Only for the president and vice-president

For more details please visit www.filene.org and www.woccu.org

develop more qualified board members and to prevent the loss of organizational knowledge as directors are rotated.

In Conclusion

Good credit union governance begins with board recruitment and selection practices. WOCCU strongly believes credit union boards are in a unique position to add great value to their institutions and help better serve members. Credit unions across the globe have many differences. However, we all share common guiding principles of democracy and self-help, and we can learn from each other by engaging board members and executives in conversations about best practices in credit union governance.

WOCCU's International Credit Union Governance Principles help credit unions worldwide address the spectrum of duties and responsibilities needed to efficiently and effectively operate a credit union: "...board members and managers have an obligation to maintain ethical conduct and professionalism and to speak with a single voice once board decisions have been made." The Filene research and WOCCU's Governance Principles can help us to reach a common language in improving credit union governance. 

—by Liliana Tangwall, Credit Union Analyst, WOCCU